

Demographic Intelligence: Profiling the Capital Markets Not the Headlines' Millennials

JUNE 2021



Happy 40th Birthday Millennials

DECISION MAKERS	HEDGE FUND MANAGERS	BUSINESS LEADERS	INSTITUTIONAL INVESTORS
AVOCADO TOAST LOVERS	SHARING ECONOMY ENTHUSIASTS	SOCIAL MEDIA INFLUENCERS	PELOTON AND FITNESS FIENDS

Not Another Piece on Millennials

Much has been written, and news feeds are inundated with the latest happenings from this generation, yet we need a reboot – an **updated and enhanced view** of who Millennials are in the present day.

The oldest Millennials turned 40 as of January 2021. They are our **mentors, bosses, and clients**.

We are unpacking data on **junior leaders today** and highlighting their **impact on the capital markets**.

Going Beyond the Headlines...

There are 73 million, 25-40 year olds...

AND

...Nearly 5 million turn 40 in 2021

Millennials (born 1981-1996), became the largest adult population in 2019¹

Two-thirds of American Millennials are older than 30²

Millennials hold the smallest percentage of Household Wealth...

BUT

...\$3 TR in home mortgages are owned by those under 40

20% less than Baby Boomers' shared during the 1990's³

3x the value of mortgages owned by those under 40 in 1990⁴

Young adults dove into the financial markets during the Pandemic...

YET

...Millennials already owned \$1.6 TR in Consumer Credit in the real economy

10 million new brokerage accounts opened in 2020⁵

More than any other U.S. living generation⁴

Millennials will become the largest percentage of the U.S. labor force...

AND

...75 million people will be 33-48 in 2029

Rising into senior leadership and top earning positions

The largest expected gain in the labor force over the next decade, +4.5 million workers⁶

Millennials aren't the **next generation** of leaders; they are **currently** assuming positions of power as:

CEO's, Cabinet Members, Congresswomen and Commissioned Officers.

Thought leaders are considering the ways **this generation interprets situations and moves capital markets** differently than others.



Headlines Have Beat The Millennial Story to Death... Right?

The Capital Markets Tell a Different Narrative

The Headlines Compare Apples to French Fries



Generations are Arbitrary

The only generation officially designated by the U.S. Census Bureau was **the Baby Boomers** (born between 1946 – 1964).⁷ **Millennials**, while up for interpretation, have broadly been defined as those born between **1981 and 1996**, an equivalent age span as Gen X. Yet, as we'll share, this is the **most heterogenous group** over the last century.



Small is Relative in the 21st Century: Enter Scale and Velocity

Wealth accumulation in the 2020's happens on an **entirely different scale** than the 1990's, with too many **confounding factors** for direct comparisons to be made. While Millennials own less than 5% of U.S. household wealth, this **totals nearly \$6 Trillion**.³



Who Studies Consumers by Age? Consider their Angle...

Age cohorts give **demographers, marketers, and content creators** tools to analyze changes in views over time; but generations are only one way to group people by age. Painting subsets of humans with a broad brush, **based on age spans of 15-20 years**, allows for a rabbit hole of interpretations depending on the intention.⁸



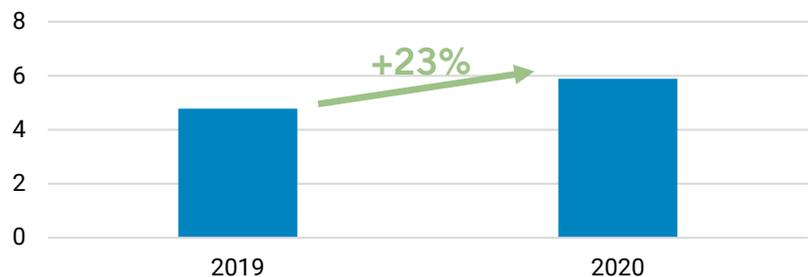
More Than Just Conduits of Change

Millennials have been known as **trend setters** for decades, yet surprisingly little is spoken about their **tangible economic power**. In 2021, we need a refreshed perception of this generation as **market movers** with the **capital to support their tendencies**.

From Next Generation to Now Generation

Throughout 2020, U.S. Millennials experienced the most **growth in household wealth**, on a YoY basis, across the adult generations.³

YoY Growth in Millennial Household Wealth (\$T)



Source: Federal Reserve

Why This Matters

Why do we care about the years people are born?

Analyzing demographics of existing and emerging leaders reveals a lot about the step change that occurs when **succession plans take place**.

Our lives are viewed as a timeline of events, and the **ages we experience defining moments** shapes the way we view the world and **make decisions**.

Crisis Defines Generations in Different Ways

'Millennials' Should Be Two Groups of People

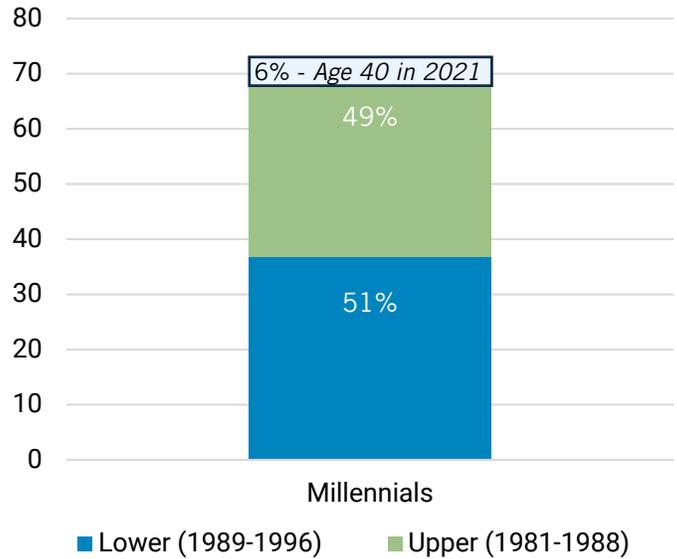
Given the arbitrary nature of generation definitions, allow us to put our stake in the ground and identify Millennials by two separate buckets, each around the same size in population.

'Upper Millennials', born between **1981-1988**, are becoming industry experts in their careers after decade-long tenures. Many have moved into homes with spouses and children, and **over 12% of this group turns 40 in 2021.**²

'Lower Millennials', born between **1989-1996**, are at the **onset of their careers**; collecting paychecks, opening retirement accounts, and signing leases with roommates.

Millennial sub-groups experienced **defining moments in U.S. economic history** from vastly different vantage points, and their **presence in the workforce and financial markets** should be analyzed in these **two separate buckets**. We underline this point by highlighting recent global crises and a few differing impacts.

US Millennial Population (in millions)
As of April 1, 2020



Source: Federal Reserve

GFC*: Loss of 'What' You Do for Work

2008 - 2011

COVID-19: Loss of 'Where' You Work

2020 →

Upper Millennials: Recent College graduates missed out on years meant to lay the foundation for building personal wealth into adulthood.

41% of young adults, between 25-29 in 2011, **lived with parents and/or moved back** in temporarily due to the economy.⁹

Lower Millennials: Children, as young as 12 years old, had their lifestyles turned upside down as their parents lost jobs and entire life savings.



U.S. consumer **debt reached \$12.7 TR** in 3Q2008, with a **delinquency rate of 8.5%**.¹¹

Upper Millennials: Many professionals at the height of careers spent time at home, taking care of families, amidst a mass move to the suburbs and desire for more living space.

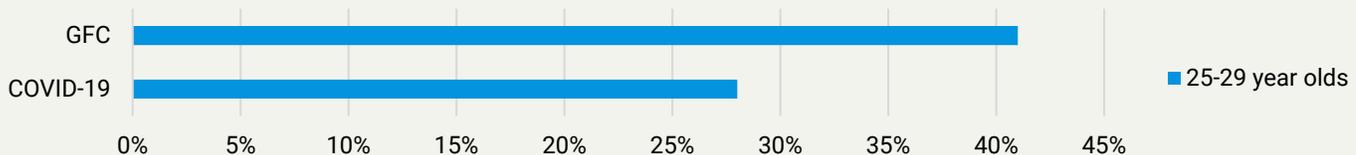
59% of Americans born between 1981-1988 own a home in 2021.¹⁰



Lower Millennials: Working from home allowed recent college graduates the flexibility to maintain their independence from anywhere.

Only **28% of young adults** between 25-29 during the pandemic **lived with their parents.**¹²

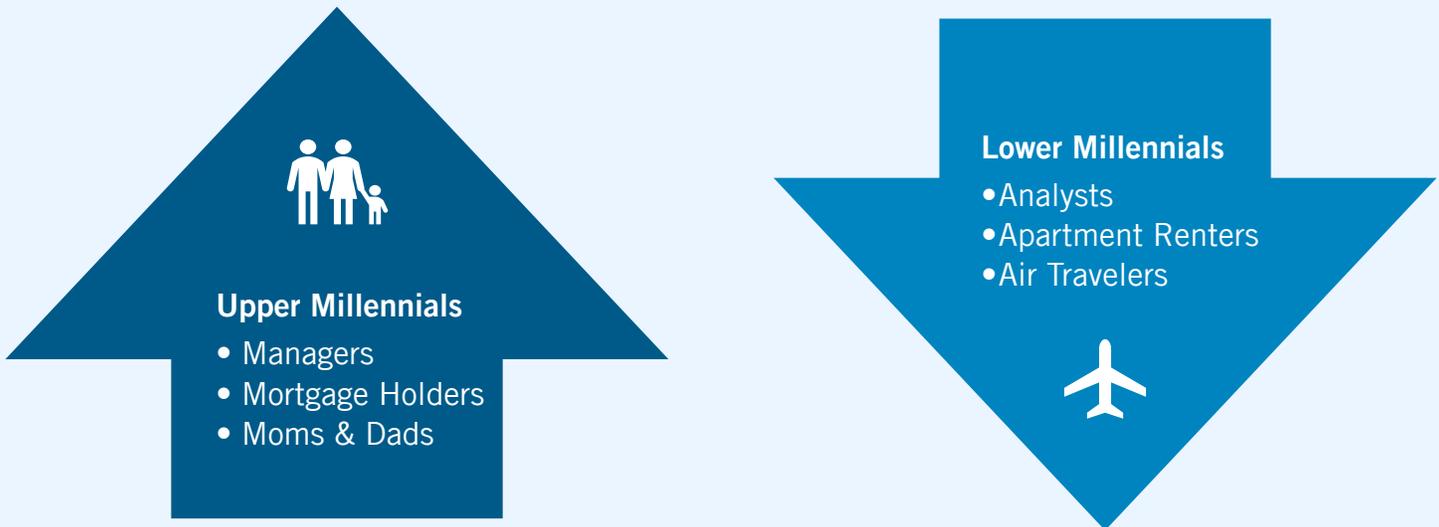
% of Young Adults Living at Home During Crisis
Upper Millennials vs. Lower Millennials



*Global Financial Crisis
Source: Pew Research

Mapping Out Market Participants

Millennial Investors in Two Buckets



Demographics Intelligence in Investing

Anecdotally, Jefferies Capital Intelligence team is monitoring a handful of Equity Strategy funds focused on **including demographics data in their investment processes**.

Consumer sector-specific funds tend to emphasize this alternative dataset the most when researching their portfolio companies. However, areas such as **Healthcare and IT** are seeing increased consumerization, forcing investors to incorporate studies on **consumer age, gender, race, ethnicity, and background** into their research processes.

More investment managers are adding ESG overlays into their investing frameworks, and demographics analysis hits squarely on many factors related to the **'S' and 'G' components of ESG**. Issuers are expressly stating their **corporate investment in social and community** objectives and committing to **diversity within boards and management teams**.

By studying consumer behaviors related to demographics and leveraging data from companies related to these trending behaviors, fund managers can **generate additional alpha** for their investors.

What Defines Talent?

Countless studies and surveys have proven that companies with more **diverse workforces and management teams tend to outperform** less diverse peers. Millennials increasingly see homogenous boards and management teams as an investment risk, due to concerns around confirmation bias.

Many Hedge Fund managers are applying diversity and inclusion data as a more **quantitative component of company analyses**, but some are beginning to analyze the demographic qualities of **market participants themselves** to try and better understand current forces driving the market.



Money Managers and Decision Makers

A Closer Look at the Upper Millennials

We study younger generations as they are conduits of change and innovation, but until a certain point, youths haven't amassed an impactful enough level of wealth to influence markets. Using a 2010 college graduation year as a line of demarcation for Millennials allows us to focus on a group of professionals with **capital to support their tendencies and materially move markets**.

Although Millennials have dominated the headlines throughout the 21st century, **Upper Millennials** - turning 40 in 2021, have transitioned into money managers, market movers, and business decision makers **seemingly overnight for many**. Diving deeper into the eldest Millennials' life experiences shines a light on common misconceptions associated with their generation, which **need to be debunked**.

Upper Millennial Rumors in 2021		Global Financial Crisis 2008-2011	→	COVID-19 Global Pandemic 2020-Present
<p>MYTH</p> <p>Young and Inexperienced Investors</p> 	<p>TRUTH</p> <p>Upper Millennials have learned about risk management firsthand, through two crises and massive drawdowns</p>	<p>Experienced Through an Industry Lens as Analysts</p> <ul style="list-style-type: none"> • Saw Hedge funds decline nearly 20% in 2008, and over 1,400 liquidations.¹³ • Developed a more conservative view of leverage as a tool. 	→	<p>Decision Makers through an Unprecedented Health Crisis</p> <ul style="list-style-type: none"> • Volatile Equity levels reaching all-time highs. • Sustained interest in Privates. • Low interest rates raised the attractiveness of corporate debt.
<p>MYTH</p> <p>Living in Their Parents' Basements</p> 	<p>TRUTH</p> <p>Upper Millennials are parents...and some of their parents live in their homes</p>	<p>Labor Market Conditions Challenged Independence</p> <ul style="list-style-type: none"> • For 25-34 year-olds between 2010-2011, unemployment skyrocketed to over 10%¹⁴, and 8/10 young adults stated they didn't have enough money to live a life they want.⁹ 	→	<p>Sandwich Generation –Now Taking Care of Parents AND Children</p> <ul style="list-style-type: none"> • Lifestyle needs and record-low rates have increased suburban mortgage ownership. • Nearly 2/3 of upper millennials are married¹⁶, and childcare responsibilities have heightened during WFH.
<p>MYTH</p> <p>Paralyzed by Student Loans and Debt</p> 	<p>TRUTH</p> <p>Upper Millennials have innovated and improved their financial situations over time</p>	<p>Heightened Loans and Debt Prompted Innovation</p> <ul style="list-style-type: none"> • 2/3 of '08 college grads had student loans, with average balances of \$23,200.¹⁴ • Nearly 1 in 5 Upper Millennials state they did not take career risks due to student loan obligations.¹⁵ 	→	<p>Quarantine Bodes Well for Wallets</p> <ul style="list-style-type: none"> • Federal student loan payments, collections, and interest were suspended in 2020 – the pause on interest accumulation alone saved borrowers \$4.8 billion/month.¹⁷ • Credit card debt declined by over 10%, checking deposits grew by \$4 trillion, and savings grew by \$5 trillion in 2020.¹⁸

Money Managers and Decision Makers

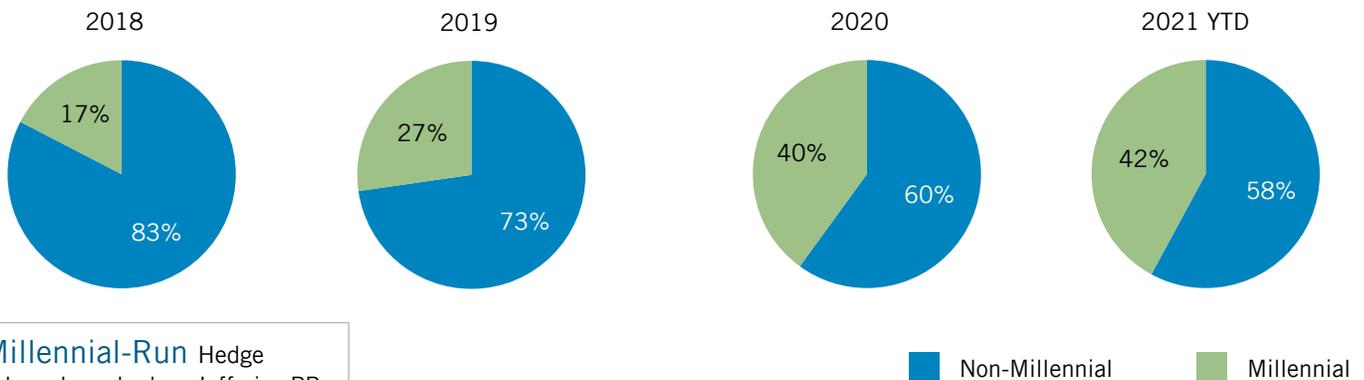
A Closer Look at the Upper Millennials, Cont.

Upper Millennial Rumors in 2021		Global Financial Crisis 2008-2011	➔ COVID-19 Global Pandemic 2020-Present
MYTH Trend Setters, NOT Market Movers 	TRUTH Upper Millennials are in decision making seats and prepared to materially invest	Generation of Savers... <ul style="list-style-type: none"> Household personal savings rate went from 3.5% in '07 to 12% 5 years later¹⁹. Social media and globalized world economies educated millennials on unique investing styles, i.e. ex-US and Crypto.²⁰ 	...Ready to Spend <ul style="list-style-type: none"> Millennials grew their share of household wealth by the same amount Baby Boomers lost in 2020 and expect continued growth.³ 12% of Upper Millennials turn 40 in 2021, entering their top earning decade.²
MYTH Millennials Represent the Retail Market 	TRUTH Upper Millennials are institutional portfolio managers in 2021	Upper Millennials Opened 401ks Over a Decade Ago <ul style="list-style-type: none"> Millennials started saving for retirement at 24, compared to Gen X average of 30 and Baby Boomers average of 33.²¹ 	How Many Millennial Hedge Funds Are There? <ul style="list-style-type: none"> Millennials outnumber Gen X as “Experienced Market Entrants” and are equal in size of “Holdover Account Owners”.²² The Reddit investors may be battling their own generation...

Who's in Charge? Millennial Hedge Fund Founders

There has been a robust pipeline of new hedge fund launches over the past 3 years, and a growing number of these emerging managers are **Millennial Founders**. Jefferies Capital Intelligence team performed an analysis of funds which launched on the firm's Prime Brokerage platform, taking a closer look at the **generational identity of portfolio managers**:

Founders of New Hedge Fund Launches



30 Millennial-Run Hedge Funds have launched on Jefferies PB platform over the past 3 years

Source: Jefferies

Top Three Insights

From Analyzing Millennial Asset Managers...

1. Are Millennials Less Likely to Navigate Another GFC?

- ✓ Risk Management born during the Financial Crisis, and applied during COVID
- ✓ Headlines have pitted Millennials against Hedge Funds... but those that sit in the intersection have insights from both sides

2. Innovative Investment Products on the Horizon

- ✓ Savings Up + Debt Down + Time to Brainstorm + Industry Experience = Excitement to Launch from Young Institutional Managers and Investors
- ✓ Millennials are using the capital markets to pursue the American Dream
- ✓ A wave of new market participants on the institutional level by 2050

3. Is 2021 The Year the World Caught Up with Millennials?

- ✓ No longer taking our personal lives for granted in a flexible working model
- ✓ ESG/Sustainability Factors are Financial Material – from Pollution to People
- ✓ A Post-COVID spending spree, emphasizing experiences across generations

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FOOTNOTES:

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