

7 MEGATRENDS

THAT WILL DRIVE THE STOCK MARKET
IN THE COMING DECADE



 **Cabot Wealth NETWORK**
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7 Megatrends That Will Drive the Stock Market in the Coming Decade

Humanity has a long history of inflection points that have had an outsized impact on quality of life. Some of these have played out quickly – think the discovery of penicillin. We tend to refer to these types of inflection points as breakthroughs.

Others play out over a longer time, while technology and acceptance grow. For those, consider the invention of the printing press, the industrial revolution, credit cards, or the internet.

This group has been popularly known as megatrends.

Not surprisingly, these megatrends are of enormous interest to corporate leaders and investors because they provide insights into future commercial activity and opportunity.

Right now, I am tracking seven megatrends that will drive the stock market in the coming decade.

These trends will create opportunity for specific industries and companies – and therefore profits for investors.

This report reveals to you these seven megatrends and shares with you insights on which industries will benefit, and the stocks we will be watching.

One important note to keep in mind about megatrends. Not all industries and stocks affected by a megatrend benefit equally. And of course, savvy marketers realize the power of megatrends and make efforts to associate their products and services with them, whether they really are or not. This can make investments like buying a sector ETF a mixed bag at best.

Rest assured that as these megatrends continue to unfold, the analysts at Cabot will continue to cover them, providing expert insights and strategies so you can profit.

For your successful investing,

Ed Coburn
President, Cabot Wealth Network



MEGATREND #1

Artificial Intelligence & Automation

Artificial intelligence is not just another wave of technological improvement—it is a general-purpose productivity technology, similar in historical importance to electricity, the semiconductor, or the internet.

These technologies do not simply create new products; they transform how entire industries operate. AI has the potential to do the same by fundamentally reshaping how work is performed, decisions are made, and value is created.

At its core, AI enables machines to analyze vast datasets, recognize patterns, generate content, optimize processes, and increasingly make autonomous decisions. Unlike past software upgrades that improved incremental efficiency, AI systems can replicate cognitive tasks that were previously limited to skilled human labor. That creates the possibility of broad-based productivity gains across nearly every sector of the economy.

The most immediate impact is visible in semiconductors. Training and running advanced AI models requires immense computing power, driving demand for high-performance GPUs and custom AI accelerators.

Chip designers, advanced foundries, memory producers, and equipment manufacturers are all beneficiaries of this surge. As AI models grow more complex, the need for specialized silicon will likely remain strong for years.

Closely tied to chips is the buildout of cloud infrastructure and data centers. AI workloads require scalable storage, networking, and processing capacity. Hyperscale cloud providers are investing tens of billions of dollars annually to expand AI-ready infrastructure. This spending benefits not only cloud platforms but also networking companies, power management suppliers, cooling system providers, and data center real estate operators.

AI also heightens the importance of cybersecurity. As systems become more automated and data-driven, attack surfaces expand. At the same time, AI tools are being deployed both to strengthen defenses and to launch more sophisticated attacks. This dynamic creates sustained demand for next-generation security platforms capable of real-time threat detection and automated response.

In enterprise software, AI is shifting applications from passive record-keeping systems to active decision-support engines. Customer service platforms can now automate interactions. Marketing tools optimize campaigns in real time. Financial software detects anomalies and forecasts outcomes with greater precision. Companies that successfully embed AI into their software stacks can command premium pricing and improve customer retention.



Beyond the digital world, AI is accelerating robotics and industrial automation. Vision systems, predictive maintenance algorithms, and autonomous logistics solutions are improving manufacturing efficiency and reducing labor dependency. As reshoring and supply chain resilience become priorities, AI-driven automation becomes even more economically attractive.

Healthcare may ultimately see some of the most transformative effects. AI-enabled drug discovery, diagnostics, and personalized medicine are compressing research timelines and improving treatment targeting. Machine learning models can analyze genomic data, identify promising compounds, and optimize clinical trial design. Over time, this could significantly improve R&D productivity in biotechnology and pharmaceuticals.

The market implications are substantial. If AI delivers sustained productivity gains, companies can produce more output with the same or lower input costs. That dynamic drives margin expansion, which in turn fuels earnings growth. Historically, durable margin improvement has been one of the most powerful drivers of long-term stock appreciation.

Importantly, the biggest winners may not be the companies that simply build AI infrastructure, but those that deploy AI most effectively within their own operations. Firms that use AI to streamline costs, enhance product differentiation, and accelerate innovation could outperform peers that lag in adoption.

Given its cross-industry reach and potential to reshape global productivity, artificial intelligence and automation are likely to be the dominant equity market driver of the coming decade.

Some of the stocks we'll be watching as this trend evolves:

Semiconductors & AI Chips

- **NVIDIA (NVDA)** – AI GPUs and accelerators
- **AMD (AMD)** – Data center GPUs and CPUs
- **Broadcom (AVGO)** – Custom AI silicon
- **Taiwan Semiconductor (TSM)** – Advanced chip foundry
- **ASML (ASML)** – EUV lithography equipment
- **Applied Materials (AMAT)** – Semiconductor equipment

Cloud & Data Infrastructure

- **Microsoft (MSFT)** – Azure AI cloud platform
- **Amazon (AMZN)** – AWS infrastructure
- **Alphabet (GOOGL)** – Google Cloud + AI models
- **Oracle (ORCL)** – Enterprise cloud infrastructure
- **Equinix (EQIX)** – Data center REIT



Cybersecurity

- **Palo Alto Networks (PANW)**
- **CrowdStrike (CRWD)**
- **Fortinet (FTNT)**
- **Zscaler (ZS)**

Enterprise Software (AI-Embedded)

- **Salesforce (CRM)**
- **ServiceNow (NOW)**
- **Adobe (ADBE)**
- **Intuit (INTU)**

Robotics & Industrial Automation

- **Rockwell Automation (ROK)**
- **ABB (ABB)**
- **Siemens (SIEGY)**
- **Fanuc (FANUY)**

AI-Enabled Healthcare

- **Illumina (ILMN)**
- **Thermo Fisher (TMO)**
- **Recursion Pharma (RXRX)**

MEGATREND #2 Productivity Renaissance

The ultimate economic impact of artificial intelligence will depend on one central question: Does it materially increase productivity? If AI evolves from a promising tool into a true productivity engine, the implications for economic growth and equity markets could be profound.

Productivity—output per hour worked—is the foundation of long-term prosperity. When productivity rises, companies can produce more goods and services with the same labor and capital inputs. That dynamic reduces unit costs, supports higher wages without triggering inflation, and expands profit margins.

Historically, major technological breakthroughs such as electrification, the interstate highway system, and the internet triggered multi-year productivity accelerations that lifted both GDP growth and corporate profitability.



If AI meaningfully boosts productivity, corporate margins could expand structurally. Businesses would automate repetitive tasks, streamline workflows, improve forecasting, reduce error rates, and enhance decision-making. Customer acquisition costs could fall. Product development cycles could shorten. Supply chains could become more efficient. Over time, these incremental gains compound into significant earnings growth across sectors—not just in technology, but in healthcare, manufacturing, finance, and services.

Stronger productivity growth would likely translate into faster real GDP expansion. Economies facing demographic headwinds from aging populations could offset slower labor force growth with smarter, more automated systems. Higher output per worker supports rising living standards and increases the economy's sustainable growth rate.

In such an environment, equity valuations could remain structurally elevated. Investors typically assign higher multiples to companies when growth is durable and margins are expanding. If AI enables a broad-based efficiency renaissance, markets may justify premium valuations for longer than traditional cycles would suggest.

However, there is meaningful risk on the other side. If AI adoption proves more incremental than transformative—or if regulatory constraints, cost overruns, and competitive saturation limit profitability—expectations could reset. The late 1990s technology boom offers a cautionary parallel: revolutionary potential was real, but valuations overshot near-term earnings reality. A similar dynamic could produce a valuation correction reminiscent of the post-2000 unwind, particularly in high-multiple AI leaders.

In short, AI's long-term impact on productivity may determine whether the coming decade resembles a sustained expansion—or a boom followed by painful recalibration.

Some of the stocks we'll be watching as this trend evolves:

Industrials

- **Honeywell (HON)** – Smart automation
- **Caterpillar (CAT)** – Predictive maintenance

Financials

- **JPMorgan (JPM)** – AI in trading and risk management
- **BlackRock (BLK)** – AI-enhanced portfolio analytics

Healthcare

- **UnitedHealth (UNH)** – AI-driven claims optimization

Logistics

- **UPS (UPS)** – Route optimization AI
- **FedEx (FDX)** – AI logistics efficiency



MEGATREND #3

Energy Transition & Electrification

The global energy system is undergoing one of the largest structural transformations in modern history. While much of the public discussion focuses on renewable energy, the broader and more durable theme is electrification—the steady shift toward electricity as the dominant form of energy across transportation, industry, and residential use. This transition is not limited to solar panels and wind turbines. It encompasses electric vehicles, grid expansion, battery storage, nuclear power revival, and even liquefied natural gas (LNG) as a stabilizing bridge fuel.

Electricity demand is poised to grow meaningfully over the next decade. Electric vehicles are replacing internal combustion engines. Data centers supporting AI require enormous power loads. Heat pumps are substituting for gas heating systems. Industrial processes are gradually electrifying. Together, these forces create sustained demand growth that requires massive investment in generation, transmission, and storage capacity.

One of the most critical sub-themes is grid modernization. Much of the existing grid infrastructure in developed economies is decades old and was not designed for intermittent renewable generation or two-way power flows from distributed sources like rooftop solar. Expanding and upgrading transmission lines, substations, transformers, and smart grid technologies is essential to handle rising electricity loads. This dynamic supports utilities, electrical equipment manufacturers, engineering firms, and infrastructure developers.

Closely tied to electrification is the rapid evolution of battery technology. Energy storage is the linchpin that enables renewable integration and electric vehicle adoption. Improvements in lithium-ion chemistry, solid-state batteries, and grid-scale storage solutions are driving longer range, faster charging, and greater system stability. As battery costs decline and performance improves, adoption accelerates—creating demand not only for battery manufacturers but also for component suppliers and system integrators.

This transition also fuels demand for critical minerals, including lithium, copper, nickel, and rare earth elements. Electrification is materially more resource-intensive than traditional fossil fuel systems. Electric vehicles require significantly more copper wiring than conventional cars. Renewable installations depend on rare earth magnets and specialty metals. As a result, mining companies, processing facilities, and countries rich in these resources may see sustained strategic importance and pricing power.

At the same time, there is growing recognition that renewables alone may not meet rising baseload demand. This has sparked a nuclear power resurgence in several countries. Advanced reactor designs, small modular reactors (SMRs), and life extensions for existing plants are gaining policy support as governments seek reliable, carbon-light energy sources. Nuclear provides consistent generation that complements intermittent wind and solar power.



Meanwhile, LNG serves as a bridge fuel in the transition. Natural gas remains essential for grid stability and for countries replacing coal-fired generation. Geopolitical tensions and energy security concerns—particularly in Europe and parts of Asia—have reinforced the importance of diversified LNG supply chains. Export terminals, shipping infrastructure, and gas producers may continue to benefit from this demand.

From a market perspective, the energy transition represents a multi-year capital spending cycle. Trillions of dollars will be invested globally in power generation, transmission, storage, and supporting infrastructure. This environment tends to favor industrial companies, materials producers, utilities, engineering firms, and infrastructure developers.

Importantly, traditional oil and gas companies may also remain resilient. Years of underinvestment have constrained supply growth, while global demand remains substantial. Energy security priorities further support domestic production in many regions. As a result, the energy transition is not a straight-line decline for fossil fuels, but rather a complex, overlapping investment cycle.

Over the next 5–10 years, electrification and energy infrastructure buildout are likely to be powerful and persistent drivers of global equity markets.

Some of the stocks we'll be watching as this trend evolves:

Utilities & Power Generation

- **NextEra Energy (NEE)** – Renewable generation leader and grid-scale investment
- **Constellation Energy (CEG)** – Largest U.S. nuclear fleet operator
- **Duke Energy (DUK)** – Regulated utility investing heavily in grid modernization

Electrical Equipment & Grid Infrastructure

- **Eaton (ETN)** – Electrical components for grid and data center power systems
- **Schneider Electric (SBGSY)** – Energy management and smart grid solutions
- **Quanta Services (PWR)** – Transmission and utility infrastructure construction
- **ABB (ABB)** – Grid automation and electrification equipment

Energy Storage & Electrification

- **Tesla (TSLA)** – Battery storage (Megapack) and EV scale leader
- **Fluence Energy (FLNC)** – Grid-scale battery storage systems
- **ON Semiconductor (ON)** – Power semiconductors critical for EVs and grid systems

Critical Minerals & Materials

- **Freeport-McMoRan (FCX)**
- **Albemarle (ALB)**
- **BHP Group (BHP)**



LNG & Natural Gas Infrastructure

- **Cheniere Energy (LNG)**
- **Kinder Morgan (KMI)**
- **The Williams Companies (WMB)**

Engineering & Infrastructure Development

- **Jacobs Solutions (J)** – Energy and infrastructure engineering
- **Fluor (FLR)** – EPC contractor for energy and industrial projects

MEGATREND #4

Deglobalization & Supply Chain Re-Shoring

For decades, globalization was a defining force of the world economy. Companies optimized supply chains for cost efficiency, spreading production across borders to take advantage of lower labor costs and streamlined trade. That model is now shifting. Rising geopolitical tensions, trade disputes, pandemic disruptions, and national security concerns have exposed vulnerabilities in highly concentrated global supply chains. As a result, nations are increasingly prioritizing resilience over pure efficiency.

This movement toward deglobalization and supply chain re-shoring does not mean global trade disappears. Rather, it becomes more regionalized and strategically aligned. Governments and corporations alike are seeking diversified sourcing, domestic production capacity, and trusted trade partnerships. The emphasis has moved from “just-in-time” to “just-in-case.”

One of the clearest examples is in semiconductors. Advanced chips are foundational to modern economies—powering everything from smartphones and automobiles to defense systems and artificial intelligence. Heavy geographic concentration of fabrication capacity in East Asia has prompted major policy responses. The United States, Europe, and other regions are investing tens of billions of dollars to incentivize domestic semiconductor fabrication plants. These new fabs require advanced equipment, materials, construction services, and long-term operational support, creating a ripple effect across capital goods and industrial suppliers.

Geopolitical fragmentation has also contributed to rising defense spending. Many countries are modernizing military capabilities in response to shifting global power dynamics. Spending is increasing not only on traditional aerospace and weapons systems but also on cybersecurity, drones, satellite systems, and advanced communications technologies. Defense budgets tend to be multi-year in nature, providing relatively stable demand visibility for contractors and suppliers.

At the same time, re-shoring manufacturing to higher-cost regions requires significant automation investment. Domestic production must be competitive despite higher labor expenses. This drives adoption of robotics, machine vision systems, industrial software, and AI-enabled quality control.



Companies specializing in factory automation, motion control, and precision equipment stand to benefit as manufacturers upgrade facilities to operate efficiently closer to end markets.

Supply chains are not simply moving back to developed economies. There is also meaningful diversification toward countries seen as geopolitically aligned and cost-effective alternatives. Mexico and India, for example, are emerging as key beneficiaries of “friend-shoring” strategies. Mexico’s proximity to the United States and integration under trade agreements position it as a natural manufacturing partner. India, with its large workforce and expanding infrastructure, is attracting investment in electronics, pharmaceuticals, and technology assembly. These regions may see sustained capital inflows and industrial development over the coming decade.

Supporting all of this is the need for expanded infrastructure and logistics networks. Ports, rail systems, warehouses, highways, and cross-border transport hubs must scale to accommodate new trade patterns. Industrial real estate, logistics providers, and infrastructure engineering firms are positioned to participate in this buildout.

From a market perspective, deglobalization and re-shoring point toward a multi-year capital expenditure boom in manufacturing capacity, defense systems, and supporting infrastructure. Such cycles tend to favor industrial companies, capital goods manufacturers, aerospace and defense contractors, and materials suppliers. Certain emerging markets aligned with supply chain diversification trends may also benefit disproportionately.

While globalization defined the last era of economic expansion, resilience and strategic autonomy are shaping the next. The reconfiguration of global supply chains is likely to be a durable force influencing corporate investment decisions—and equity market leadership—over the next 5–10 years.

Some of the stocks we’ll be watching as this trend evolves:

Semiconductor Capital Spending

- **Intel (INTC)**
- **GlobalFoundries (GFS)**
- **ASML (ASML)**
- **KLA (KLAC)**

Aerospace & Defense

- **Lockheed Martin (LMT)**
- **RTX Corp (RTX)**
- **Northrop Grumman (NOC)**
- **General Dynamics (GD)**



Factory Automation

- **Rockwell Automation (ROK)**
- **Emerson Electric (EMR)**
- **Keyence (KYCCF)**

Industrial Real Estate & Logistics

- **Prologis (PLD)**
- **Union Pacific (UNP)**
- **CSX (CSX)**

India & Mexico Exposure

- **iShares MSCI India ETF (INDA)**
- **Grupo México (GMBXF)**

MEGATREND #5 Demographics & Aging Populations

Demographics are among the most powerful long-term forces shaping economic outcomes—and unlike many other variables, they are highly predictable. Across most developed countries, populations are aging rapidly due to lower birth rates and longer life expectancy. The proportion of citizens over age 65 is rising steadily in the United States, Europe, Japan, and parts of China. This shift carries profound implications for labor markets, government spending, consumption patterns, and capital allocation.

An aging population naturally drives higher demand for healthcare services. Older individuals consume significantly more medical care than younger cohorts, including hospital services, outpatient procedures, long-term care, and specialized treatments for chronic conditions. Healthcare providers, managed care organizations, and senior living operators are positioned to benefit from sustained utilization growth. Even incremental increases in life expectancy can translate into years of additional healthcare demand.

Closely related is the impact on biotechnology and medical devices. Aging increases the prevalence of cardiovascular disease, cancer, diabetes, neurodegenerative disorders, and orthopedic conditions. This creates steady demand for innovative therapies, diagnostic tools, implantable devices, and minimally invasive surgical technologies. Advances in precision medicine, biologics, and AI-assisted diagnostics may further improve treatment outcomes while expanding addressable markets. As the global population ages, research and development targeting age-related diseases becomes both a medical priority and a significant commercial opportunity.

The demographic shift also influences financial behavior. As large segments of the population transition from wealth accumulation to wealth preservation, wealth management services become increasingly important. Retirees prioritize capital protection, income generation, tax efficiency, and estate planning. Asset managers, advisory firms, and retirement service providers may benefit from the ongoing rollover of assets into managed accounts and income-oriented investment strategies.



Similarly, insurance companies play a central role in aging societies. Demand rises for life insurance products, annuities that provide guaranteed income streams, long-term care coverage, and supplemental health policies. Insurers with strong balance sheets and well-managed underwriting practices can capitalize on predictable demographic trends, although they must also carefully manage longevity risk and interest rate exposure.

Aging populations tend to favor income-producing assets, including dividend-paying equities and bonds. Retirees often seek steady cash flow rather than high-growth, high-volatility investments. This shift can create sustained demand for utilities, consumer staples, healthcare dividend payers, real estate investment trusts (REITs), and fixed-income securities. Over time, demographic-driven capital flows may contribute to relative outperformance of more defensive sectors during certain market environments.

From a broader market perspective, aging populations can dampen overall labor force growth, potentially slowing economic expansion in developed nations. However, this is partially offset by productivity gains from automation and technological innovation. Moreover, demographic headwinds in mature economies contrast sharply with trends in countries that maintain younger populations.

Nations such as India and parts of Southeast Asia benefit from more favorable age structures, with growing working-age populations and expanding consumer bases. These demographic advantages can support stronger GDP growth, rising middle classes, and increased domestic consumption. As global supply chains diversify and capital seeks growth opportunities, these regions may attract disproportionate investment flows.

In sum, demographics shape both demand patterns and capital allocation. Aging populations in developed markets create steady, durable growth in healthcare and income-oriented sectors, while younger economies may drive faster expansion. Over the next decade, understanding demographic trends will remain essential for identifying both stability and growth in global equity markets.

Some of the stocks we'll be watching as this trend evolves:

Healthcare Providers

- **HCA Healthcare (HCA)**
- **UnitedHealth (UNH)**
- **Humana (HUM)**

Medical Devices

- **Medtronic (MDT)**
- **Abbott (ABT)**
- **Stryker (SYK)**



Biopharma (Age-Related Diseases)

- **Eli Lilly (LLY)**
- **Novo Nordisk (NVO)**
- **Merck (MRK)**

Wealth Management & Asset Managers

- **Charles Schwab (SCHW)**
- **BlackRock (BLK)**
- **Morgan Stanley (MS)**

Insurance & Annuities

- **MetLife (MET)**
- **Prudential (PRU)**
- **Aflac (AFL)**

Income-Oriented Sectors

- **Realty Income (O) – REIT**
- **Southern Company (SO) – Utility**
- **Coca-Cola (KO) – Dividend staple**

MEGATREND #6 Healthcare & Biotechnology Innovation

Healthcare innovation is entering a potentially transformative era, driven by the convergence of artificial intelligence, genomics, mRNA platforms, and precision medicine. These technologies are dramatically accelerating the pace of drug discovery and improving the probability of clinical success. What once took a decade of trial-and-error experimentation can now be guided by data-driven modeling, genetic insights, and platform-based development approaches.

Artificial intelligence is increasingly used to analyze massive biological datasets, identify promising drug targets, predict protein structures, and optimize clinical trial design. When combined with advances in genomic sequencing, researchers can better understand the genetic drivers of disease at an individual level. This enables precision medicine—therapies tailored to specific patient populations based on biomarkers and molecular profiles. Rather than treating broad disease categories, drug developers can target the underlying mechanisms more accurately, potentially improving efficacy and reducing side effects.

One of the most visible breakthroughs in recent years has been the rise of GLP-1 obesity drugs and next-generation metabolic treatments. Originally developed for diabetes management, GLP-1 receptor agonists have demonstrated substantial weight loss benefits, opening a vast new addressable market.



Obesity is linked to cardiovascular disease, kidney dysfunction, and other chronic conditions, so effective treatments could reshape healthcare spending patterns. Companies developing next-generation formulations—including oral versions and combination therapies—may benefit from sustained demand as adoption expands globally.

Another critical area to watch is oncology. Cancer research has been revolutionized by immunotherapy, targeted therapies, and cell-based treatments such as CAR-T. Advances in tumor profiling and biomarker identification are enabling more personalized approaches to treatment. Additionally, AI-driven drug design may accelerate the identification of novel compounds that address previously “undruggable” targets. As cancer remains one of the leading causes of mortality worldwide, incremental improvements in survival rates represent both profound medical progress and substantial commercial opportunity.

Gene editing technologies, particularly CRISPR-based platforms, represent another frontier. These tools allow scientists to precisely modify DNA sequences, potentially correcting the root causes of inherited diseases. Early clinical successes in treating rare genetic disorders have validated the approach, and research continues to expand into more common conditions. While regulatory, ethical, and safety considerations remain important, gene editing holds the promise of one-time, curative therapies rather than lifelong symptom management.

Emerging alongside these developments is growing interest in longevity research. Scientists are studying the biological processes of aging itself—including cellular senescence, mitochondrial function, and epigenetic changes—with the goal of extending healthspan rather than simply lifespan. Though still in earlier stages, therapies targeting age-related decline could eventually open new markets as global populations age.

From a market standpoint, biotechnology is inherently cyclical. Periods of rapid innovation and strong clinical results often lead to powerful multi-year rallies, while setbacks in funding, regulation, or trial outcomes can produce sharp downturns. Valuations in the sector frequently reflect expectations for future breakthroughs rather than current earnings, amplifying volatility.

However, when a genuine innovation wave takes hold, it can create durable winners. Platform technologies that support multiple drug candidates, companies with strong intellectual property portfolios, and firms that demonstrate consistent clinical execution may compound value over many years. As scientific tools improve and development timelines compress, the probability of transformative breakthroughs rises.

Over the next decade, healthcare and biotechnology innovation could become a defining driver of equity performance—not only because of medical necessity, but because technological convergence is fundamentally reshaping how new therapies are discovered and delivered.

Some of the stocks we’ll be watching as this trend evolves:



GLP-1 & Metabolic Drugs

- **Eli Lilly (LLY)**
- **Novo Nordisk (NVO)**

Oncology Leaders

- **Merck (MRK)**
- **Bristol Myers Squibb (BMY)**
- **Roche (RHHBY)**

Gene Editing

- **CRISPR Therapeutics (CRSP)**
- **Vertex Pharmaceuticals (VRTX)**
- **Editas Medicine (EDIT)**

AI-Driven Drug Discovery

- **Recursion Pharma (RXRX)**
- **Schrödinger (SDGR)**

Platform Biotech

- **Moderna (MRNA)**

MEGATREND #7

Fiscal Expansion & Sovereign Debt

Over the past decade—and especially since the pandemic—governments around the world have shifted toward structurally higher fiscal deficits. Aging populations, healthcare obligations, defense spending, industrial policy, and interest costs are all contributing to persistent borrowing needs. Unlike prior cycles where deficits narrowed during economic expansions, many major economies now appear committed to sustained fiscal expansion regardless of growth conditions.

This matters because sovereign debt levels influence inflation, interest rates, capital flows, and asset valuations. When governments borrow heavily over long periods, the macroeconomic environment tends to change in important ways.

One possible outcome is higher inflation volatility. Large fiscal deficits inject demand into the economy. If supply growth cannot keep pace—whether due to labor shortages, supply chain fragmentation, or commodity constraints—prices may rise more persistently. Even if inflation trends lower cyclically, markets may assign a higher long-term risk premium to inflation uncertainty.

Another risk is financial repression. Historically, governments with high debt burdens have sometimes relied on policies that keep real interest rates below inflation, effectively reducing the real value of outstanding debt over time.



This can involve central bank asset purchases, regulatory incentives for institutions to hold government bonds, or implicit caps on yields. While such policies can stabilize debt dynamics, they may suppress real returns for savers and distort capital allocation.

High debt levels can also contribute to yield curve instability. As interest costs rise, investors may demand higher compensation for holding long-dated government bonds. This can steepen yield curves unexpectedly or increase bond market volatility. Conversely, aggressive central bank tightening to contain inflation can invert yield curves, pressuring banks and cyclical sectors. Either scenario increases uncertainty around discount rates—a key driver of equity valuations.

In this environment, investors often gravitate toward real assets. Tangible assets such as commodities, infrastructure, and real estate tend to retain value during inflationary periods. Gold, in particular, has historically served as a hedge against currency debasement and fiscal excess. While it does not generate income, its appeal often rises when confidence in fiat stability declines.

From a sector perspective, several areas may benefit. Infrastructure companies stand to gain from continued government spending on transportation, utilities, and energy systems. Public investment programs aimed at stimulating growth or enhancing national competitiveness can create durable revenue streams for engineering, construction, and materials firms.

Defense contractors may also see sustained demand as geopolitical tensions and fiscal expansion intersect. Military budgets are often politically resilient, and rising global instability can reinforce spending commitments even in highly indebted countries.

Certain financial institutions may benefit as well, particularly those positioned to navigate interest rate volatility or manage assets in inflation-sensitive environments. However, this advantage depends heavily on the shape of the yield curve and regulatory conditions.

Importantly, persistently high debt and rising interest costs can pressure equity valuations—especially for long-duration growth stocks. If bond yields rise meaningfully, the present value of future earnings declines, leading to periodic valuation compression in high-multiple sectors such as technology. This does not negate long-term growth prospects, but it can create sharper market rotations.

Over the next 5–10 years, fiscal expansion and sovereign debt dynamics are likely to shape the investment landscape as much as technological innovation. Investors will need to balance growth opportunities with awareness of inflation risk, interest rate volatility, and shifting capital preferences toward real and income-generating assets.

Some of the stocks we'll be watching as this trend evolves:



Infrastructure & Engineering

- **Vulcan Materials (VMC)**
- **Martin Marietta (MLM)**
- **Fluor (FLR)**

Defense (Also tied to Megatrend #4)

- **Lockheed Martin (LMT)**
- **Northrop Grumman (NOC)**

Gold & Precious Metals

- **Newmont (NEM)**
- **Barrick Gold (GOLD)**
- **SPDR Gold Shares (GLD)**

Real Assets / Energy

- **ExxonMobil (XOM)**
- **Chevron (CVX)**

Financials (Rate Volatility Beneficiaries)

- **Goldman Sachs (GS)**
- **CME Group (CME)**

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About the Expert



Ed Coburn has run Cabot Wealth Network since 2018 when he bought the company from longtime friend and colleague Tim Lutts. Ed is a graduate of Cornell University and holds an MBA from the Olin School of Management at Babson College. His career has brought him into many different sectors of the economy, from software and healthcare to transportation and manufacturing, and even oil spills. He is active in the Financial Media Association, a past Director of the Software & Information Industry Association, a member of the American Association of Individual Investors, and a frequent speaker at industry events.

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