In 2015, we launched an equity theme focused on the Millennial generation: the demographic cohort of individuals born between 1980 and 1999, now 18 to 37 years of age.

Given this generation's sheer size, we believe its members are poised to have an out-sized impact on the US economy. We continue to believe Millennials could be a significant source of growth for many years.

In our view, the types of companies that stand to benefit from this generation include certain innovative technology companies, wellness-focused brands, and service-oriented industries.

Revisiting our call on the Millennial generation
Millennials – also known as Generation Y – are the demographic cohort following Generation X. Millennials continue to garner significant media attention for a number of reasons but particularly due to the sheer size of the cohort. According to the US 2016 Census, there were approximately 88 million 16-35 year-olds in the US representing nearly a third of the total population (Fig. 1). Pew Research Center has reported that Millennials surpass Gen. X to become the largest share of the current American workforce. Over the next decade, a majority of this generation will enter the workforce, form households, start families, and approach their peak earning years.

Millennials stand to be an influential segment of the US economy akin to the baby boomers. Given the size of the group and expected growth in spending power in the coming decade, we believe Millennials may be the incremental consumer for many businesses.
As such, companies are well-advised to align current business models and offerings with this generation’s consumption needs and preferences. While today’s young adults exhibit some behavioral traits in common with past generations, different societal influences and economic circumstances distinguish this cohort in a number of ways. In a nutshell:

- Millennials are voracious consumers of technology and related content
- They are leading the charge in adopting healthy lifestyles
- Coming of age in the post-Great Recession period has affected other life choices. Millennials are more likely to rent their homes, and they tend to prefer urban locations at this stage in their lives. However, there are signs that some older Millennials may be buying their first homes.

**Digital natives and mobile lifestyles**

This is a generation of "digital natives," having grown up with cable TV, internet, and cell phones. From an early age, Millennials have demonstrated comfort in incorporating technology and different digital platforms into nearly every facet of their life.

Their passion for technology has fueled a desire to be constantly connected – a driving force behind the strong growth in social media usage. Unsurprisingly, Millennials are checking in and interacting on Facebook, Instagram, and various other social media services on a daily basis at much higher rates than older generations.

Mobile technology allows Millennials to manage nearly every aspect of their lives online and has altered how they consume information, make purchasing decisions and share feedback. This generation is increasingly using consumer technology and social media to shape their spending decisions, for example. While individuals would previously consult friends and family prior to certain purchasing decisions, now social media, online forums, consumer reviews, price comparisons, and research reports have exponentially expanded the universe of available information. As a result, this generation has grown up with better tools at the simple touch of their finger-tips than any generation did previously, leading to potentially more informed and cost-conscious decision-making.

**Focused on health and wellness**

Additionally, we believe a greater awareness surrounding the impact of diet on health and the benefits of regular exercise has shifted food and discretionary consumption preferences. While this is true across generations, living healthy has become a priority for Millennials. And although Millennials have tended to delay starting families as compared with previous generations, the Pew Research Center estimates that 1.5 million Millennial women became mothers in 2015, bringing the total Millennial mom population to 16 million. In our view, Millennial moms are likely to be even more health conscious as they make decisions for their families. The Millennials’ focus on healthy living favors organic food/natural food producers as well as digital fitness gadgets and trendy athletic apparel. This should drive sales.
across a number of health-related industries for years to come. But we believe Millennials’ influence extends beyond their own consumption patterns; via blogs and other social media they are helping to shape the opinions of other age cohorts, including the baby boomer generation – witness the rise of the “mommy bloggers” on social media.

Coming of age amid economic uncertainty
Financial considerations are another aspect in which Millennials stand out compared to past generations. Many members of Gen. Y had either just entered or were trying to enter the workforce amid the Great Recession, which has impacted their financial health. Compared with young adults in Gen. X in 1989, the median net worth of 18-31 year-olds fell nearly 30% according to the Federal Reserve’s 2013 Survey of Consumer Finances (SCF). (The report is updated every three years; the Federal Reserve conducted its most recent survey from April to December 2016 and an updated report should be available later in 2017).

A sharp increase in student debt was partly to blame for the decline in Millennial net worth (Fig. 2). With the skyrocketing cost of education, student debt surpassed the USD 1 trillion mark in 2013 for the first time, and now stands at roughly USD 1.3 trillion. Although prospects for employment have improved along with the gradual recovery in the US economy, Millennials have been entering adulthood with record levels of student debt. This appears to be influencing spending decisions.

The renting generation
In our view, cyclical headwinds only explain part of the downward trend in home ownership we’ve seen among young adults (Fig. 3). Attitudes and preferences towards adulthood events such as getting married and having kids have been shifting to later ages. Many Millennials choose to live with parents for a longer period of time than past generations. Many of these individuals may be looking to move out, however. UBS Global Research recently published an update to its quarterly housing intentions survey, in which it found that half of those Millennials living with parents ("doubled up") plan to rent or buy a home in the next 12 months (see "UBS Evidence Lab: US Housing Intentions A Tale of Two Cohorts: Financial Outlook of "Doubled Up" Lags Current Renters/Owners," 11 October 2016). This is consistent with the previous survey, but up from the initial November 2014 work. The recent survey continues to suggest that this group is more likely to rent than buy, at least initially.

Millennials also appear to prefer living closer to metropolitan areas that offer employment and convenient, on-demand services. From an investment perspective, this favors companies that own and manage multi-family dwellings and facilitate the renting process. Additionally, we believe “sharing economy” businesses also stand to benefit, as they tend to flourish in metropolitan areas by utilizing the internet and mobile devices as a means of conveniently providing services and things on demand without any ownership commitment (e.g. Uber, Zipcar).
Another interesting finding of the UBS Global Research survey is that a growing percentage of all Millennials – 46% at recent tally – would like to buy a home in the next year, which could be supportive of increased demand for entry level homes as Millennials marry and start families. Of course, they may be constrained by financial considerations such as sufficient annual income and the ability to save for a down payment. That said, we believe that as Millennials age, demand for starter homes will increase.

Experience matters – Millennials and "FOMO"
Millennials' tendency to prioritize spending on experiences over goods has been cited by numerous sources. For example, a 2014 survey from Eventbrite titled "Millennials—Fueling the Experience Economy" found that 82% of Millennials participated in a variety of life experiences in the past year, compared with 70% for older generations. In the same survey, 72% of Millennials said they would like to spend more on experiences over material goods in the future.

The increased popularity of social media has likely fueled the demand for experiences; it presents a platform where Millennials – as well as other age groups – can share their activities with friends. Sharing through social media instills the "Fear of Missing Out" (FOMO), which drives viewers of social media content to create their own memories to share. According to the same survey conducted by Eventbrite, 69% of Millennials experience FOMO, and Millennials are more likely than other age cohorts to share their experiences on social media. We believe this bodes well for companies offering experiences as a product. This is evident in segments such as live entertainment, where there has been considerable growth in spending since Millennials began to enter the workforce in 2000.

Though Millennials are not the only generation to seek out a variety of experiences – Baby Boomers are also contributing to total expenditure – Millennials are establishing new long-term consumption patterns, and we believe these patterns provide investment opportunities. Companies that cater to the Millennial generation through offering unique experiences, whether in-store or through their product, are in the best position to capitalize on this emerging trend.

Investment implications
Given the large size of the Millennial generation and their future spending power, we believe Millennials will be an increasingly important driver of consumption of goods and services. As this generation completes school, enters the workforce, and approaches their peak earnings years, we believe companies engaged in mobile technology, social media, e-Commerce, sharing economy services, experiences, health and wellness, multi-family rental housing, and starter homes are poised to outperform the broader market.

Our selection process
In our full report, we provide a list of stocks which, in our opinion, are poised to benefit from the influence of the Millennials. Our list leverages the thinking of our CIO Wealth Management Research equity sector strategists as well as UBS Investment Research (IR) analysts in various industries for their best stock ideas with
exposure to this theme within their coverage universe. All of these
stocks are rated either Buy or Neutral by the Investment Bank or are
on the Most Pre-ferred or Bellwether equity preference lists
maintained by UBS CIO WMR's equity sector strategists.
Appendix

Terms and Abbreviations

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<th>Description / Definition</th>
<th>Term / Abbreviation</th>
<th>Description / Definition</th>
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<td>E</td>
<td>expected i.e. 2011E</td>
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<td>Shares outstanding</td>
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<td>UBS Wealth Management Research</td>
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<td>CIO</td>
<td>UBS Chief Investment Office</td>
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