

Looking Forward

What Could Our Post COVID-19 World Look Like?

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The first quarter of 2020 was remarkable in many ways. We witnessed large moves in equity markets and saw bonds and commodity prices impacted by central banks scrambling to provide liquidity to financial markets. The root cause was individuals and institutions seeking the safety of cash or raising cash to meet lending obligations. As March drew to a close, the financial system held some of the largest cash deposits since the global financial crisis of 2008. While everyone has been encouraged to stay home, all eyes and ears have been glued to the news for updates on the COVID-19 pandemic with emotions swaying from relief to pessimism, depending on the headline. What is abundantly clear is the current global focus is resolutely on the short-term.

While we are all attentive to current headlines, the situation offers our team the opportunity to look beyond the present and contemplate what the post COVID-19 world may look like. As a starting point, we can say unequivocally that we will survive this pandemic. We do not intend to trivialise the tragedy and suffering throughout the world, but simply to point out that a devastating, widespread event like this is not unique to human history - we have adapted and endured. Building on the expectation that we will emerge from this crisis, let's look ahead to how the future might appear and its impact on managing portfolios.

In the aftermath of any crisis, there are inevitably some winners and losers. In certain industries, competitors will disappear as a result of bankruptcy. This allows the survivors to increase their margins and grow. In other industries, business models that have worked for many years will find themselves challenged and will be required to adapt. Additionally, we will likely see new businesses form altogether. Businesses created during a time like this are often more successful than those that started at the top of a business cycle. In the following sections, we will sample several areas we are exploring as having the potential to present new opportunities.

Technology

With the implementation of social distancing and the mandated closing of non-essential businesses, the world has been forced into a giant remote work experiment. We are even seeing socializing and faith observance finding new technologically-savvy ways of being conducted. Within a short period of time, millions of people began working from home only to find that the current technology and available platforms were, at least partially, insufficient to support business and stakeholder needs. Many organisations soon discovered that they needed to ration access to servers in order to keep their systems from crashing. Others found that their management was able to work from home, but many support staff were not fully equipped to work remotely. This means businesses will be required to upgrade their technology, systems, processes and security to better enable their employees to successfully work from home on a disbursed basis. This will likely bode well for many tech suppliers in the coming months and years.

Also, content providers like Netflix found themselves throttling down the quality of their streams to ensure that the increased traffic did not utilise a disproportionate amount of the available bandwidth. At the same time, customers were upgrading their home or mobile services to allow faster connection rates. The increased demand on both ends should push telecom operators to grow and reinvest in their businesses to meet this demand. As a result, service providers and related equipment manufacturers may have an opportunity to magnify their revenue.

Healthcare

The healthcare sector will likely see increased activity for many reasons. First, similar to technology, entire parts of systems worldwide have struggled to meet the demands placed on them by the COVID-19 pandemic. As history has demonstrated, there has been a tendency for policy makers and others to fight the previous war. We do not expect this time to be any different. In fact, we anticipate politicians will seek to appeal to an emotionally-drained populace.

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Second, there will likely be an increased emphasis on developing domestic sources for medical equipment and pharmaceuticals that are critical to a nation. This story will play well with fearful populations across the globe but the consequences of how it may be implemented remains unclear. For this type of policy to truly be successful, it would involve not only mandating vital supply purchases to not necessarily be from the lowest cost supplier, but also to be from a company with the appropriate domestic credentials. Moreover, this type of regulation must extend throughout the supply chain if the country aims to achieve domestic independence. For example, there must not only be a domestic surgical mask manufacturer in each nation pursuing such a policy, but also domestic suppliers of the material inputs required to produce the masks. Any preferred local supplier will have a significant advantage. In our view, this is an example of the potential implications for global supply chains in the aftermath of the pandemic. To this point, companies have invested capital in plants and infrastructure designed for open global markets and so, looking ahead, we will need to contemplate how and where this may have implications.

Cashless Society

As a result of heightened health risks and changed behaviours such as increased online shopping, there are now more cashless transactions than ever. In fact, many retailers have chosen to no longer accept cash payments. Some are finding the elimination of cash handling beneficial for a number of reasons such as security, customer preference, and hygiene, to name a few. Businesses involved throughout the transaction process (payments, technology, security, data gathering, and so on) will be in a position to benefit from this trend.

Consumer Behaviour

There is no doubt that the COVID-19 pandemic will leave a lasting impression on society just as the Great Depression did almost a century ago. Firstly, the pandemic highlights how vulnerable and susceptible we, and our economies, are to a viral infection. Secondly and perhaps most importantly, the quick and unexpected drop in income exposed the financial vulnerability of individuals and families. Both of these issues speak to security – physical & financial. The psychological

need for safety will likely shape consumer behaviour for months and years to come. It seems probable that many consumers will shift savings and spending patterns. Many will aim to build a safety cushion of increased savings by deferring spending on non-essential items like the latest mobile phones or leisure travel. If this proves to be the case, we expect consumer spending to indeed recover but at a more gradual pace. Perhaps, as well, we may see consumer spending shift based upon a new and changed set of preferences and priorities.

Climate change

While the issue of climate change may have taken a backseat recently to pandemic-related news, its importance remains high. Photos of cities around the world display a decrease in air pollution and improved visibility that has never or rarely been seen over the past several decades. What remains to be seen, however, is whether the pandemic will increase resolve to combat climate change out of fears of yet more disruption to our lives. That disruption may present itself in the form of extreme weather events like storms or floods and even from food supply constraints. Current events may serve to accelerate our collective efforts to combat climate change. As a consequence, the quantum and direction of infrastructure investments in projects like transit, energy generation, and water systems may accelerate or change.

Summary

In summary, fixation on daily news headlines may be captivating but it is unlikely to unearth the investment opportunities that will inevitably present themselves in the months and years to come. We believe that divorcing yourself from the emotion of the moment, although difficult, is the best thing you can do for your long-term financial well-being.

It is our collective behaviour that drives the economy and it will be interesting to observe such changes.

*Cidel is an operating name of Cidel Asset Management Inc.