

After Covid

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As Lenin put it, “There are decades where nothing happens and there are weeks where decades happen.”

Certainly Covid 19 comes at the end of a long decade punctuated by crisis; Financial, Euro and Brexit but the pandemic has changed the world beyond recognition in a matter of a few weeks in a way that these previous crises did not. So, through the present fog of uncertainty, how might the future look and how should investors approach the coming decade?

There are several well entrenched trends that Covid has exacerbated and probably accelerated:

Cost of capital: the crisis has pushed interest rates back to, and in some cases below, zero. In the UK, the Government recently sold bonds (gilts) at negative yields and the Bank of England is actively considering negative interest rates. We’ve mentioned Lewis Carroll in these pages before, but that policy really is “through the looking-glass.” Imagine being charged to save and paid to borrow.

Inflation: inflation was already below target and falling before the disease appeared, but the simultaneous supply and demand shock of Covid has lowered inflation expectations still further. This is a tricky one: inflation has been falling because massive money printing has been met with a simultaneous decline in money velocity. It seems strange to say but as “money” has become cheaper, aggregate demand for it in the real economy has fallen.

Supply: travel restrictions due to Covid have been imposed just as the world was entering a trade war, weathering a rise in protectionism, and beginning a withdrawal from globally inter-connected supply chains. The era of an infinite supply of cheap manufactured goods may be coming to an end. Certainly, we expect to see upward pressure on inflation as the Covid pandemic passes into history.

Government spending: in a matter of weeks, a decade of austerity has been unwound; not just in the UK but across the developed world. Government debts now exceed 100% of GDP and government spending has replaced private spending in most major economies. The numbers are staggering; US debt is 10 times the size of the UK economy.

This is a vast amount of change in a very short space of time and although there are obvious and serious risks to the outlook, periods of dislocation, as alluded to by Lenin, often lead to rapid advances in technological and economic progress. Dislocation gives rise to opportunities not merely threats.

George Soros, the well-known financier and philanthropist, often talks about “reflexivity,” the capacity to respond to external change. A period of change requires the capacity for rapid adaptation. As consumer needs change those serving them need to adapt what they offer, and quickly.

Looking at all the risks and manifold problems facing the world at the moment, and thinking how to invest for a post Covid world, it is perhaps hard to be optimistic. Interest rates are likely to be at zero for an extended period and asset price volatility is likely to persist.

But, unlike all other forms of investment, companies can adapt, particularly in times of rapid societal and economic change. In many ways, such crises play to the advantages corporations have over other forms of investment. Many of the most valuable companies in the world today emerged out of the TMT crisis of the early 2000s: Google, Amazon and Apple amongst them.

Not all companies will or even should survive, that is the nature of capitalism – who now remembers Netscape – but it is the crisis-driven stimulus to innovate that will give rise to the next generation of winners.

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