



The “in-between”, the “new normal”, and what’s next...

Tracking the course for global equities to a post-COVID-19 world



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Sometimes in life, you find yourself “in between.” In between seasons, in between relationships, in between jobs. One season is ending, and the next has yet to begin. This is where markets are now.

Extreme outcomes have unfolded because of coronavirus

Discussing COVID-19, the disease caused by the coronavirus, and markets should begin with an acknowledgment of the human suffering that the crisis has caused and the injustices that it has revealed. There is more to this experience than market uncertainty, but that uncertainty is what our clients trust us to navigate.

It is remarkable how humanity met the Covid challenge. This response reminds us of our adaptability and ingenuity as a species. Let us hope that this ingenuity combined with a renewed focus on tackling injustice will lead to better long-term outcomes for us all.

“The COVID-19 economy is a contrast between extreme positives and extreme negatives”

The coronavirus crisis was unexpected, even though predictions of some sort of global pandemic were not new. Human beings struggle to imagine the implications of something so unexpected. Billions of people stopped what they were doing and changed their behavior almost simultaneously. We found ourselves in a time of extremes.

The COVID-19 economy is a contrast between extreme positives and extreme negatives. We all know the examples: the positive extremes of new pet adoption and new computers, video games, home exercise equipment, video streaming, video calls, food delivery, home improvements, and time with immediate family.

By contrast, we have the negative extremes of empty office buildings, airplanes, hotels, and theaters; disruption of schools and education; separation from extended families; shuttered restaurants; and empty brick-and-mortar shops. In peacetime, it is likely that the world has never seen such a synchronized shift in behavior.

“Crossing the chasm” — moving from concept to profitable business at pace

This shift has intersected a dynamic time for technology and communication. Many technology-enabled businesses crossed the chasm into critical scale, adoption, and habit. The adoption of innovation has happened in just a few weeks instead of years.

This is an important insight because we are not headed back to the “same normal” of pre-COVID-19 but, rather, a “new normal,” where many of the innovations brought about or accelerated by COVID-19 will be durable and long term. A good example will be advances in vaccine technology. Picking between the chasm crossers—those that will succeed and thrive—and the imposters—those that will not prove durable—will be yet another test for us as active investors.

Science has put us on a path to improvement in 2021

It can be exhausting to follow the daily news on vaccines and virus variants. Luckily, we have the support of our global health care team to keep us focused on what matters. Our takeaway from their work is that things will get better in 2021, potentially much better in many countries. What we think matters most is that vaccines seem to prevent serious disease and death. In short, we will learn to live with COVID-19. The path continues to be uncertain, but the destination of a new normal looks more and more likely.

“The adoption of innovation has happened in just a few weeks instead of years”

Positioning for the future

What does this mean for equity markets? We find ourselves in an extreme environment for liquidity, government debt, and stimulus, and this is influencing the market’s appetite for risk assets. Many trends are being extrapolated far into the future, potentially fueled by stay-at-home behavior and some speculation. The market’s behavior, in the simplest of terms, is focused on the extreme short-term winners and the extreme long-term dream.

The market also appears very confident in the Federal Reserve’s ability to control inflation and interest rates for a long time. Although it is too early to drive portfolio investment decisions, we do worry about how this level of stimulus will be removed from the system in the future.

Understanding where the world is on the path to recovery is crucial. The question we ask ourselves is, “What if the first half of 2021 is the “in between” of a COVID-dominated world and a post-COVID-19 world?” If this is the case, then focusing on short-term winners or extreme long-term dreams may be exactly the wrong thing to do. The game is about to change, as our lives and activities shift once again.

We find ourselves looking for investments that will experience accelerating returns as we move out of the crisis, even if they are out of favor and have faced crisis headwinds. This kind of investing is difficult because it requires imagination and a carefully contrarian mindset. But experience has shown that making these uncomfortable decisions with confidence can work with the support of our global research platform, which has deep industry and company knowledge. In short, now is the time to imagine what companies will evolve or reemerge as “winners,” and consequently be the most attractive stocks, as we move through the in-between phase and into a postcrisis world.

The in-between phase is by definition uncomfortable. One season is ending, and the next has yet to begin. This is complicated by the fact that the “new normal” will be different from the pre-COVID world. We are working hard to position the portfolio for the move through the in-between phase to capture the opportunities we see as the world shifts to the new normal. Investors who can imagine the impact of this change, distinguish between the “imposters” and the winning businesses, all while taking calculated risks, should benefit.

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