CIO Special

April 29, 2020

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Capturing “kairos”: the post-coronavirus world

Key take aways

- Coronavirus has forced major changes to how we live and work, and has posed questions about how societies should operate in future. With economies now starting to open up slightly, this is the right time to identify underlying economic and social questions that need answering.
- We see at least five key areas for debate in the post-coronavirus world: the “social contract” between individuals and governments; the relationship between the private and public sectors; the role of innovation and science; managing innovation and intellectual property; and, finally, multilateral values and beliefs.
- The post-coronavirus world is likely to be characterised by lower yields for even longer, despite higher borrowing. At a corporate level, those sectors best able to adapt will fare better and we are likely to see failures elsewhere. Corporate earnings are likely to fall further than current consensus estimates. Following long-term investment themes may help navigate this difficult landscape.

The ancient Greeks, as usual, had a word for it. “Kairos” refers to a moment in time where we can change things. And, as we start to see economies opening up slightly, the moment for capturing the rare opportunities presented by “kairos” is fast approaching.

The “global village” – to use that over-cosy allegory – was already under strain before the coronavirus crisis. Some globalisation indicators (such as trade) appeared to be peaking and populist politics was pushing back against perceived systemic problems – e.g. regarding the division of labour. Worries about the “quality” of growth encompassed environmental and other concerns.

A few months into the coronavirus crisis and the “global village” is already looking very different. The policy response to economic slowdown has been radical. The needs of the global economy provide a moment of “kairos” to take policy change further – if we as a society want to do so. But this has to be an active process, and the first step should be a badly-needed public dialogue about what we want to happen next. Here are five key issues for it.

The first topic that has to be addressed is **the “social contract”** – the Age of Enlightenment term for the authority of the state over the individual.

For democracies, social distancing and associated measures could be seen as a deep intervention into civil rights – although probably necessary. We need reassurance that such constraints are temporary, have parliamentary support, are scrutinized on a regular basis, and are rescinded (with good grace by governments) as soon as possible. Some democratic governments might fail to meet these objectives. The danger is that the debate then shifts to judging individual actions purely on the grounds of how they contribute to the (claimed) security of the community – a license for authoritarianism. There will of course be lessons to be learnt from how heavy social control has apparently allowed some countries to exit this crisis quickly and this will open up a debate on the relative efficiency of different political systems in dealing with such a crisis. But we do not want to throw away some hard-won democratic ideals in the process of agreeing a better future response – so throwing the baby out with the

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bathwater, in the old English phrase. The key point here is that key long-term issues such as inclusive growth (e.g. via ESG) and healthcare are best delivered through a collaborative process between societies and governments: they do not need authoritarianism.

Secondly, we need to **reconsider the relationship between private and public sectors**. For several decades, the desire has been to privatise publicly-owned enterprises. But this trend could now be slowed or even reversed. This is more to do with future reality than simple ideology. Governments will likely be forced to step into some sectors seen as systemically relevant (e.g. airlines, utilities, infrastructure, health, housing), simply to prevent them from collapse. Extricating themselves from such intervention could be difficult. Essentially involuntary state ownership of industry will force a new debate on the role of competition and profit margins, as well as on how to ensure acceptable quality and supply – for example through different wage structures in order to incentivize people to work in certain sectors. All this will create major challenges for economies and investors, but also opportunities. This is particularly evident in many of our long-term investment themes: healthcare, enhanced infrastructure and technology in various forms.

One contributing factor to this debate on the public/private relationship is our third issue, **the role of innovation and science.** The coronavirus crisis has underlined the importance of experts and will ease pressure on public budgets for research, at least in health-related areas. But increased state involvement in research and development should not, we think, mean increased centralisation. Our pandemic experience shows that even very small companies and research institutes can offer invaluable help – particularly when a niche area comes centre-stage. But effective global coordination of specialists remains key to avoiding wasted effort through trial-and-error approaches in separate initiatives (one can note the role of the WHO in the current crisis). If this can be achieved, a broad-based and well-connected network of private and public specialists seems to be a better structure for innovation than a few large entities. Healthcare is used to mixing the centralised and decentralised here: large tech companies in other sectors may have more to learn here.

Next, we should get greater discussion, on **new rules for managing innovation and intellectual property** – our fourth issue. In this situation, politicians can end up organizing and setting the rules for industry – even if, ideologically, they don't want to. History suggests, however that taking the best learning from both sides could be more effective. Different approaches to doing this need to be discussed, and we should be prepared for future flashpoints – for example, if part or wholly-publicly financed initiatives result in an effective new coronavirus drug. Should this then be kept in private hands or developed via a broader public/business partnership? Such situations may force us to challenge standard intellectual property assumptions and work again on the mix between competition and cooperation as key motivators for individuals, corporates and states. Such issues have an immediate, not just theoretical, impact on markets and not just via the health care sector or directly health-related tech. In a world where many sectors are increasingly impacted by data exchange (e.g. via 5G) and related cybersecurity issues (both long-term investment themes), the handling of knowledge becomes ever more important.

Debates here could get bogged down in familiar left/right debate, but there may be one way to start getting people thinking in a different way on intellectual property and their control over it. We think that we need a data "Age of Enlightenment" too – concerning the value of data and how to establish our individual sovereignty over it.

Our final point is that we should look again at **managing multilateral values and beliefs.** Multilateralism has been frequently bad-mouthed in recent years but the coronavirus pandemic and its consequences are clearly too big to be managed by single persons, institutions, companies and even states. Multilateral networks are key and we need to get better at them. Cooperation has its risks but we cannot avoid it. Deeply-felt issues around values and beliefs and sharing costs and responsibilities will come to the fore. This should not be a surprise: these sorts of debates, and key multilateral institutions, came in the wake of WW1 and WW2.

There is another reason for countries to make major efforts here, and capture the potential opportunities from "kairos": to put it simply, when this virus enemy is beaten, it is more than probable that a new one will – sooner or later – appear. The aftermath of the coronavirus is likely to accelerate the process of "creative destruction" as new industries replace old ones. Debt levels will be rising relative to GDP, and central bank balance sheets will increase too as the monetary policy taps probably stay open. Financing all this may involve increases in broad-based taxation (e.g. VAT) or taxes targeted at specific parts of the population.

Investment implications

Investors will have to operate in an environment of lower yields for even longer, despite higher borrowing by countries and their increasing debt ratios relative to GDP. The question of long-term sustainability and possible debt defaults will remain. Inflation seems unlikely to change the investment landscape in the short term, but could rise over the longer-term as aggregate demand returns and central banks potentially fail to reduce excess money in the system. Other upwards cost pressures (e.g. from production relocation to shorten supply chains) may however be offset by downward pressures on inflation from technological progress and changed work practice efficiency gains.

At a corporate level, earnings are likely to fall further than consensus estimates currently predict before starting to recover later in the year. Those sectors better able to innovate and adapt to the new post-coronavirus world will fare better; "creative destruction" could force corporate failure and defaults elsewhere. The supply chain reorganisation noted above may also impair corporate profitability. Over the long turn, however, equities' appeal will be maintained by the low yields on offer elsewhere. In the immediate future, expect more volatility. Following our long-term investment themes could be one way to navigate this difficult landscape.

Glossary

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Risk premia refer to the return in excess of the risk-free rate of return that an investment is expected to yield. It is a form of compensation for investors who tolerate the extra risk.

A value-added tax (VAT) is levied on the value added at each stage of the production process.

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