

HORIZON SCANNING

Post-COVID scenarios

Matters arising
in a New Normal

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Presentation summary

“Nowcasting” the transition from Lockdown to New Normal (>2021)

- Risks of ‘rolling lockdowns’ given lack of herd immunity and vaccine
- Returns to workplace at different times, for different cohorts with different social distancing rules in different countries ... will be complicated!

Horizon Scanning the New Normal

- V, W, U scenarios and their characteristics
- Greater emphasis on the S and G of ESG

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Post-COVID scenarios



Baseline summary



Virus

- Infection/ mortality peaks Q2
- Relaxation/ rolling lockdowns
- COVID may become seasonal

Responsible investment and ESG

- More focus on S and G in ESG
 - Also biodiversity loss
- Remote working becomes 'sticky'
 - New directors' duties
- Tackling inequality

Macro

- V-shaped recovery (global GDP) to 2021
- Higher national debt
 - Possible post - COVID austerity
 - COVID - 'War Bond'?

Financial Markets/ Regulation

- Recovery rallies capped by COVID during transition
- Increased regulation around causes/ symptoms of pandemic

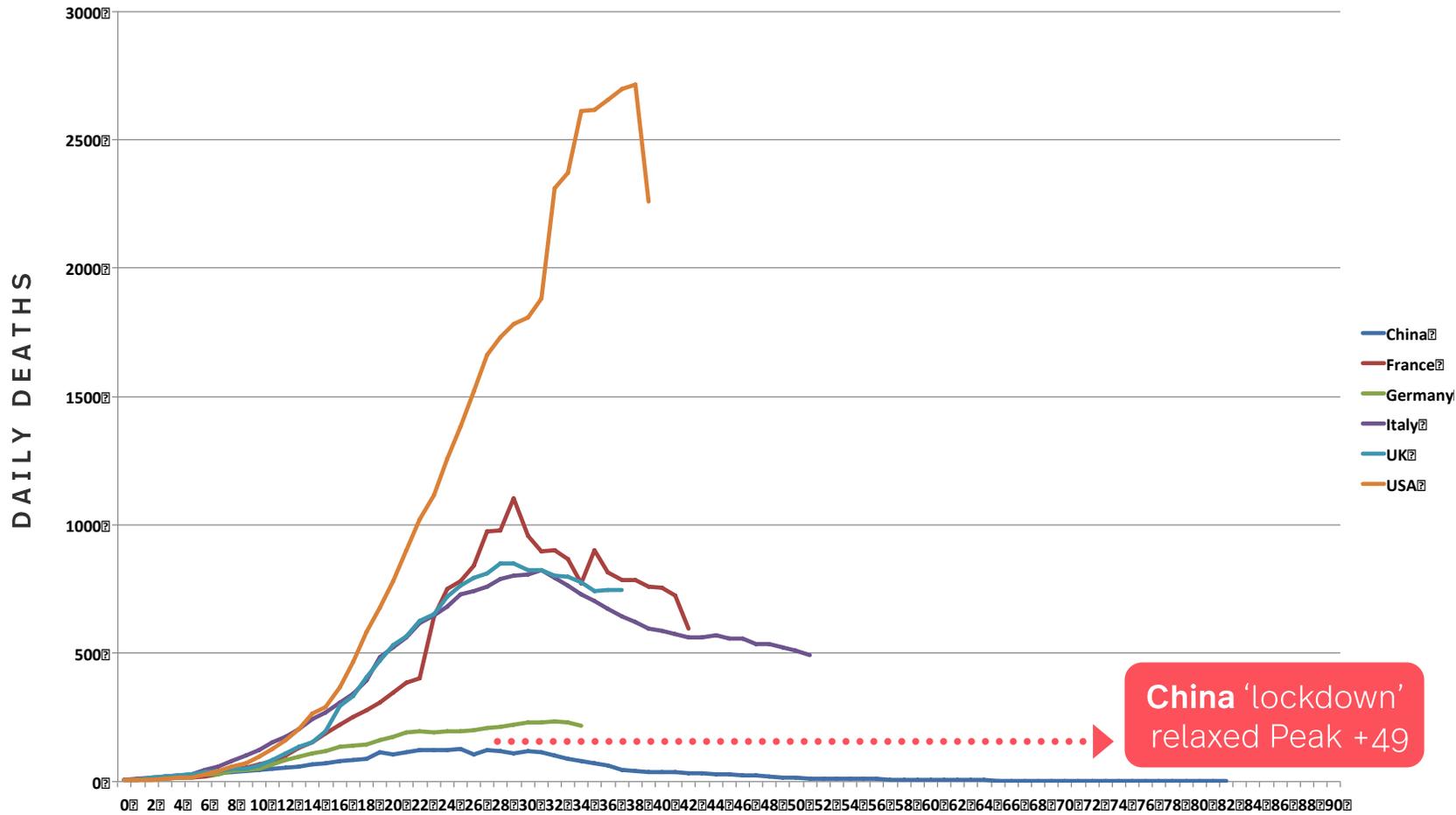
Geo-Politics

- Asia outperforms RoW growth
- Calls for shorter supply chains
- Speculation - Brexit TP extension
 - Euro/ banking stability
- US Presidential election pivotal

Some sector highlights

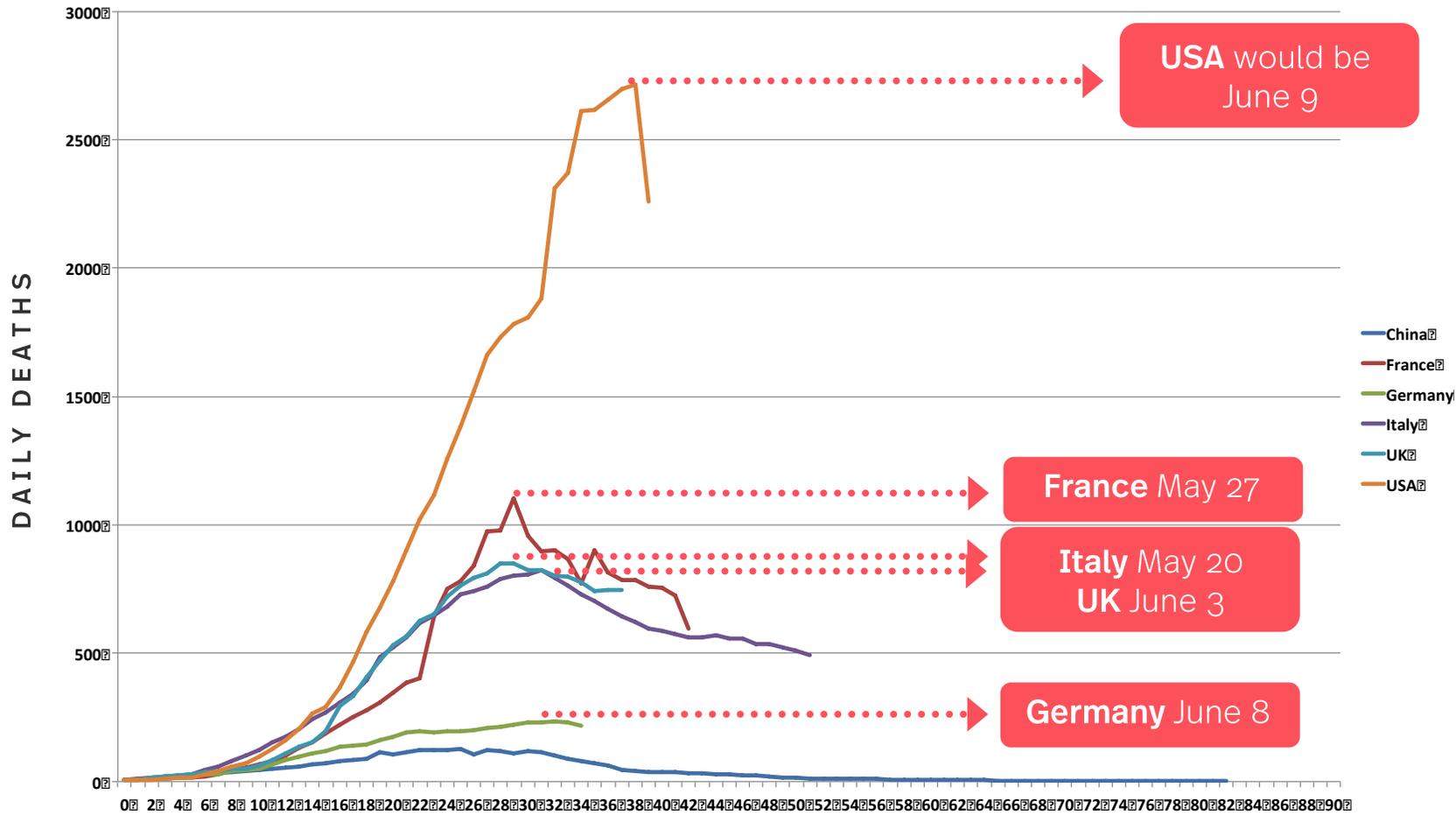
- V-shaped M&A; investment funds flow
- Retail demand for private markets
- Possible reduced demand office space
- Increased investment: vaccine and other healthcare; reversing biodiversity loss; food security; infrastructure (ESG)

Ending lockdown: The Wuhan example



- The next most difficult phase
- China began relaxing lockdown in Wuhan on April 8
- 49 days after peak daily deaths
- Day 74 after the first deaths were recorded
- Had strong test/ trace/ isolate protocols

Ending lockdown: applying Wuhan

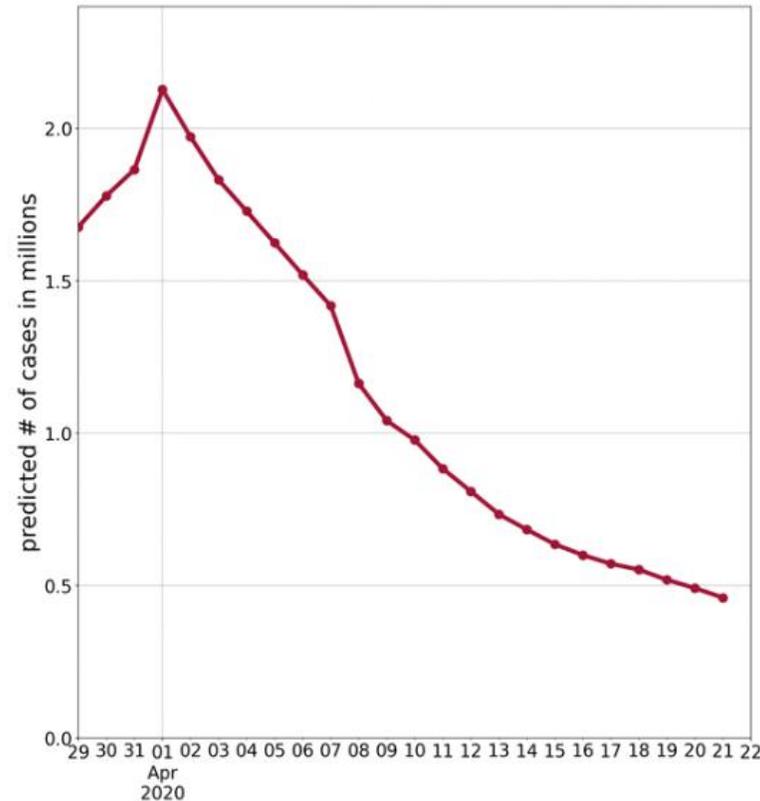
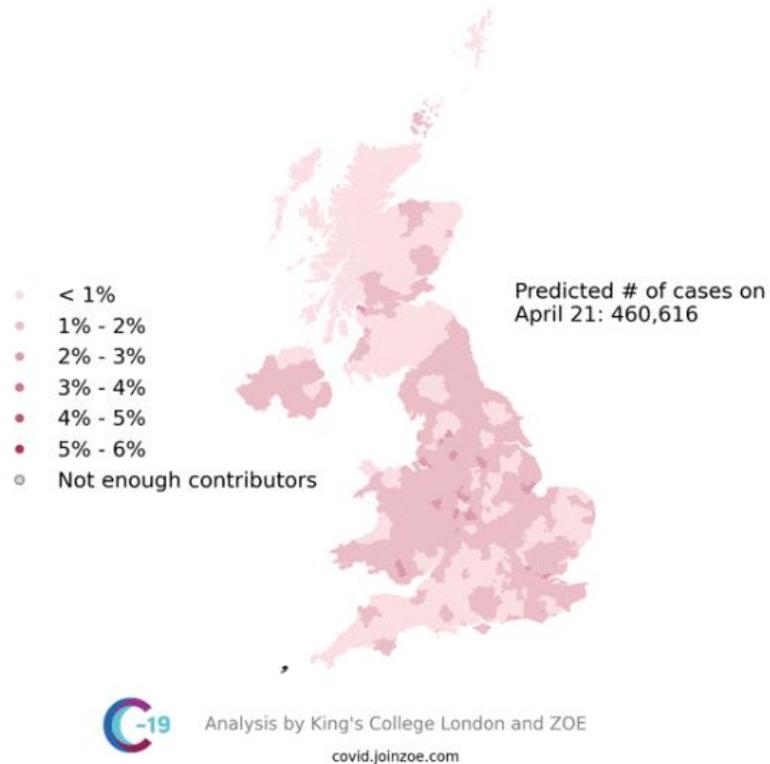


- For these western economies
- Wuhan example would mean **beginning** to end lockdowns end May/ early June
- Test/ trace/ isolate protocols not as generally extensive

'True' extent in UK?

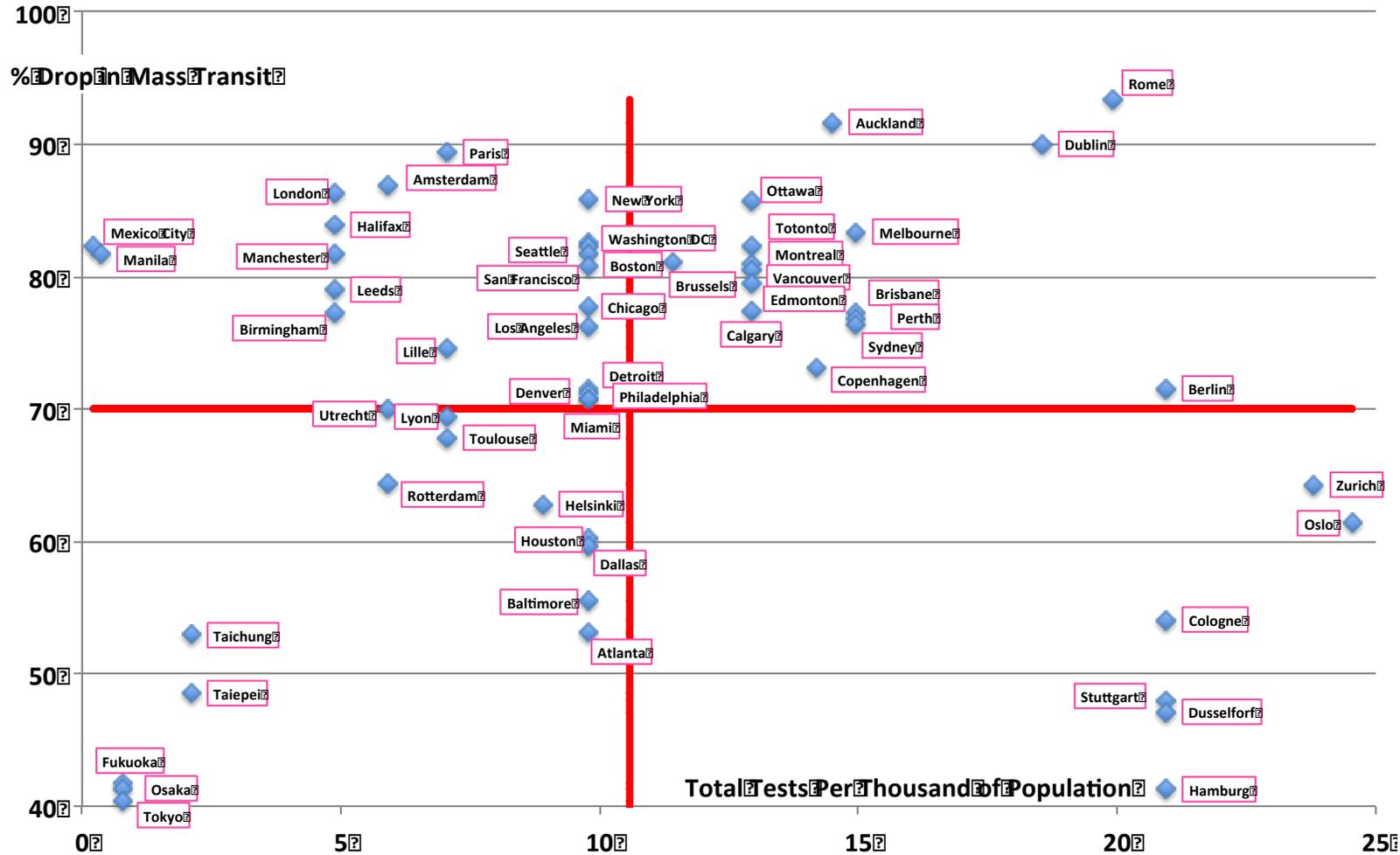


Estimate of Symptomatic COVID-19 in the UK



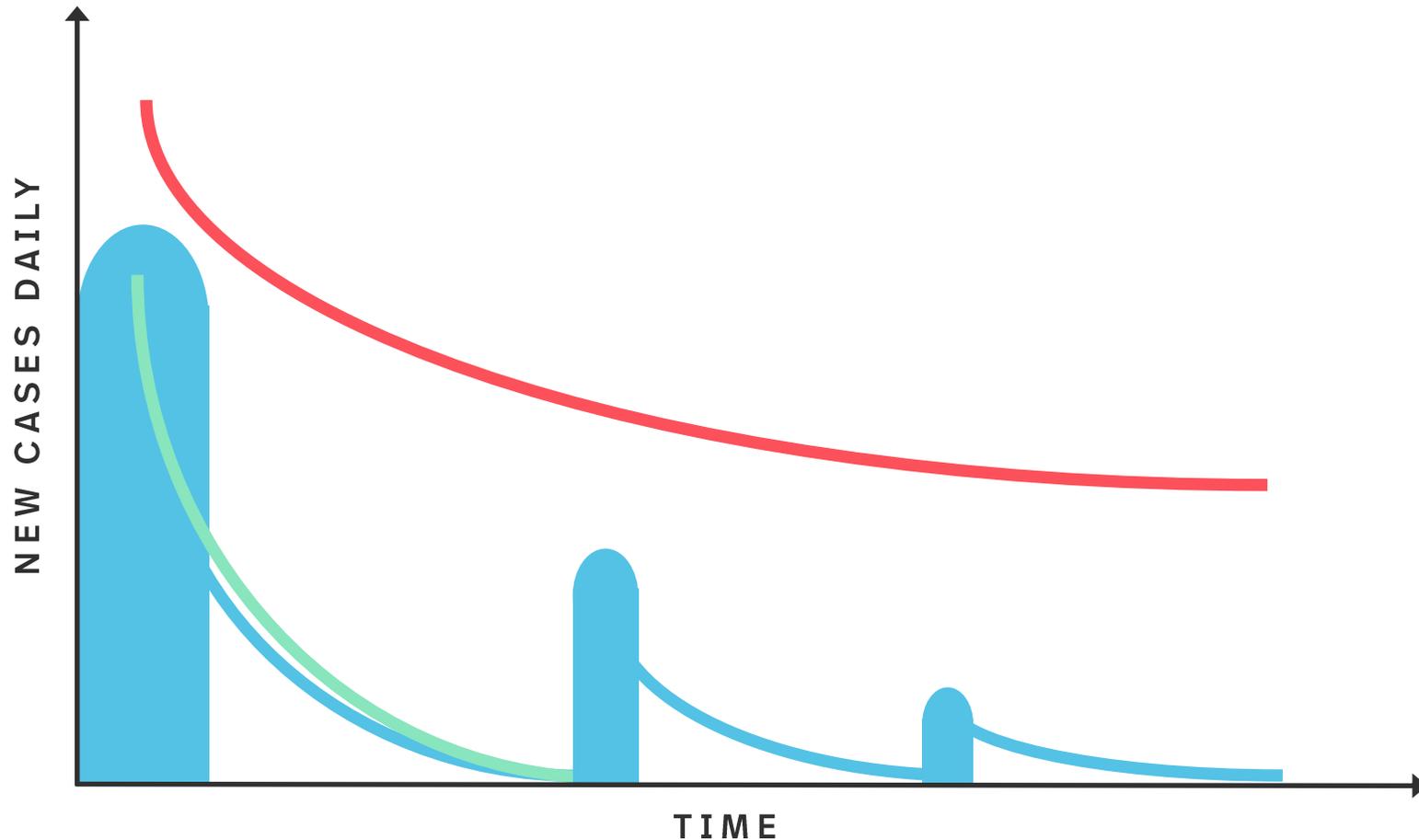
- Data taken from self-reporting 'app'
- Shows peak 'cases' >2m
- Much greater than official
- But still long way short of herd immunity (3% vs 60+)
- Similar shortfalls elsewhere

Testing & lockdown compliance by city



- Take % drop in mass transit as proxy for lockdown compliance
- High lockdown compliance + high testing rate = **safer cities**
- But logistical nightmare for returns to workplace for multi-office companies

Recovery scenarios: Disease



KEY:

 **WORST CASE**

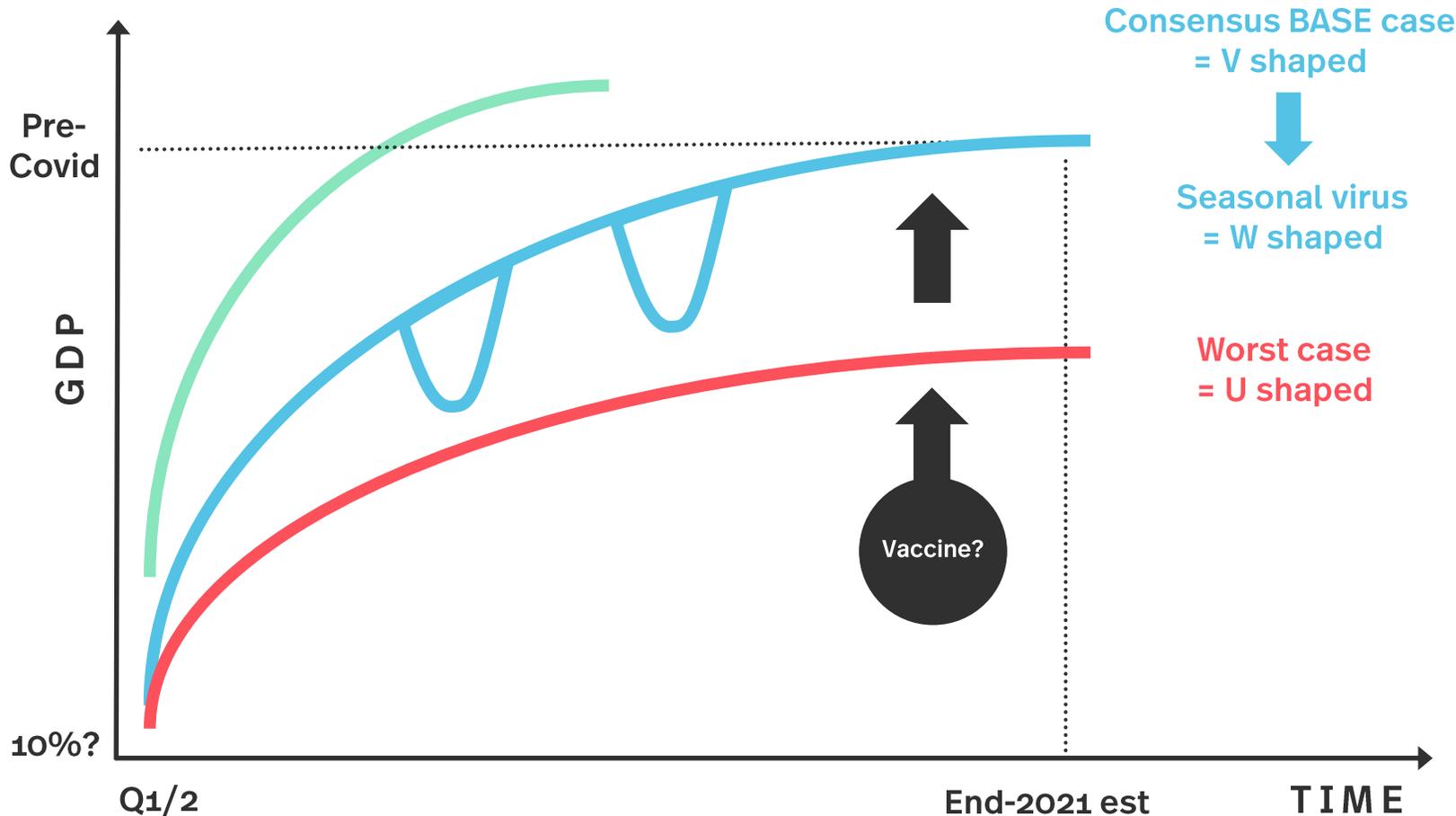
 **BEST CASE**

 **BASE CASE**

 Rolling lockdowns

- **Best case:**
no rolling lockdowns
- **Base case:**
rolling lockdowns but end of social distancing measures in 2021
- **Worst case:**
second wave

Recovery scenarios: Economy



KEY:

WORST CASE

BEST CASE

BASE CASE

Rolling lockdowns

- Recovery scenarios: economy
- Inverting disease scenarios gives a proxy for economic scenarios
- **Best case:** global economic recovery to pre-COVID levels 2020/21
- **Base case:** V-shaped global economic recovery by end 2021. Regional variations. EM > DM
- **Worst case:** U-shaped global recession. Recovery to pre-COVID GDP beyond 2021

Post-COVID base case: V-shaped recovery



Source	Date	2020 est	2021 est	Change from end-2019 to end-2021
GFC (for reference)	2008/9	-1.7% 2008	+4.3% 2009	+2.5% (2007/09)
<hr/>				
IMF (14 th April 2020)	World	-3.0%	+5.8%	+2.6%
	USA	-5.9%	+4.7%	-1.5%
	Euro-bloc	-7.5%	+4.7%	-3.2%
	UK	-6.5%	+4.0%	-2.8%
	China	+1.2%	+9.2%	+10.5%
	Advanced Economies	-6.1%	+4.5%	-1.9%
	Developing Economies	-1.0%	+6.6%	+5.5%

Post-COVID scenarios: Macro features



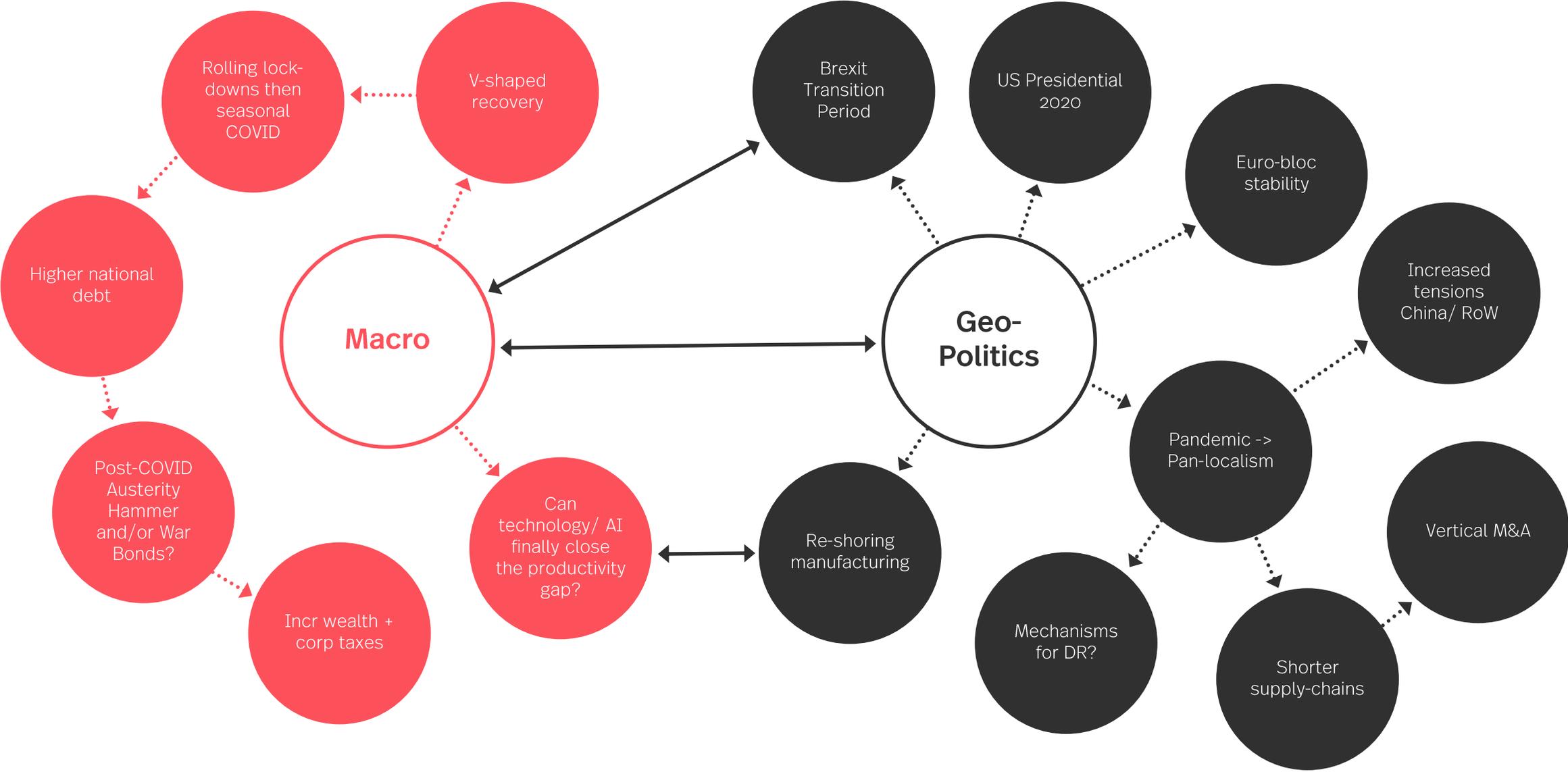
Macro	Base case: V-shaped recovery	After 2021?  W	U
The COVID-19 virus pandemic	Contained largely this year with rolling lockdowns but some social distancing measures still in place in 2021	As V but recurring (like seasonal flu) -Won't be certain until after 2021	Pandemic or major economy epidemic continues beyond 2020
GDP (growth)	Contraction 2020/ Rebound 2021 cf GFC	GFC + recurring smaller contraction/ recovery cycles 2022 onwards	Global recovery to pre-COVID GDP comes after 2021
Trend growth	Likely resumes from lower base	Likely resumes but seasonal/ diminishing contraction cycles	Lower trend from lower base
National debt/GDP	Increases by up to 20% of GDP	Increases by 20-30% of GDP	Increases by >30%
COVID-19 austerity?	Governments face decision around 2022: leave debt high) or cut public spending? Possible long-duration COVID bonds to fund infrastructure	Choices as with V-shaped but longer duration overall and higher debt levels	Debt stays higher for longer but other elements deployed (as in V)

Post-COVID scenarios: Geo-Politics



Geo-Politics	Base case: V-shaped recovery	After 2021?  W	U
US Presidential 2020	Trump's likely best chance but US COVID may be high hurdle. If he wins is Austerity 2022 likely?	Same as V (too soon to know W)	Calls for election to be delayed?
Brexit	Calls for Transition Period to be extended	Ditto 2020	Extension becomes central case
Euro stability	Likely speculation of Ital-Exit or similar. Concerns over euro banking system	Ditto 2020 and beyond	Significant intra-euro tensions. Impact on euro-zone electoral cycle. Populism likely to rise
APAC	First region to recover globally could increase trade tensions US/ China. Closer regional ties within ASEAN. More talk of common APAC currency?	Ditto 2020 and beyond	Likely reinforcing V-shaped response
Global trade	Likely shorter supply chains "Just in Time" -> "Just Around the Corner" Multi-> bi-lateralism	Ditto 2020 and beyond	Ditto

Mind Map: Macro/Geo-Politics



Post-COVID scenarios: Market features



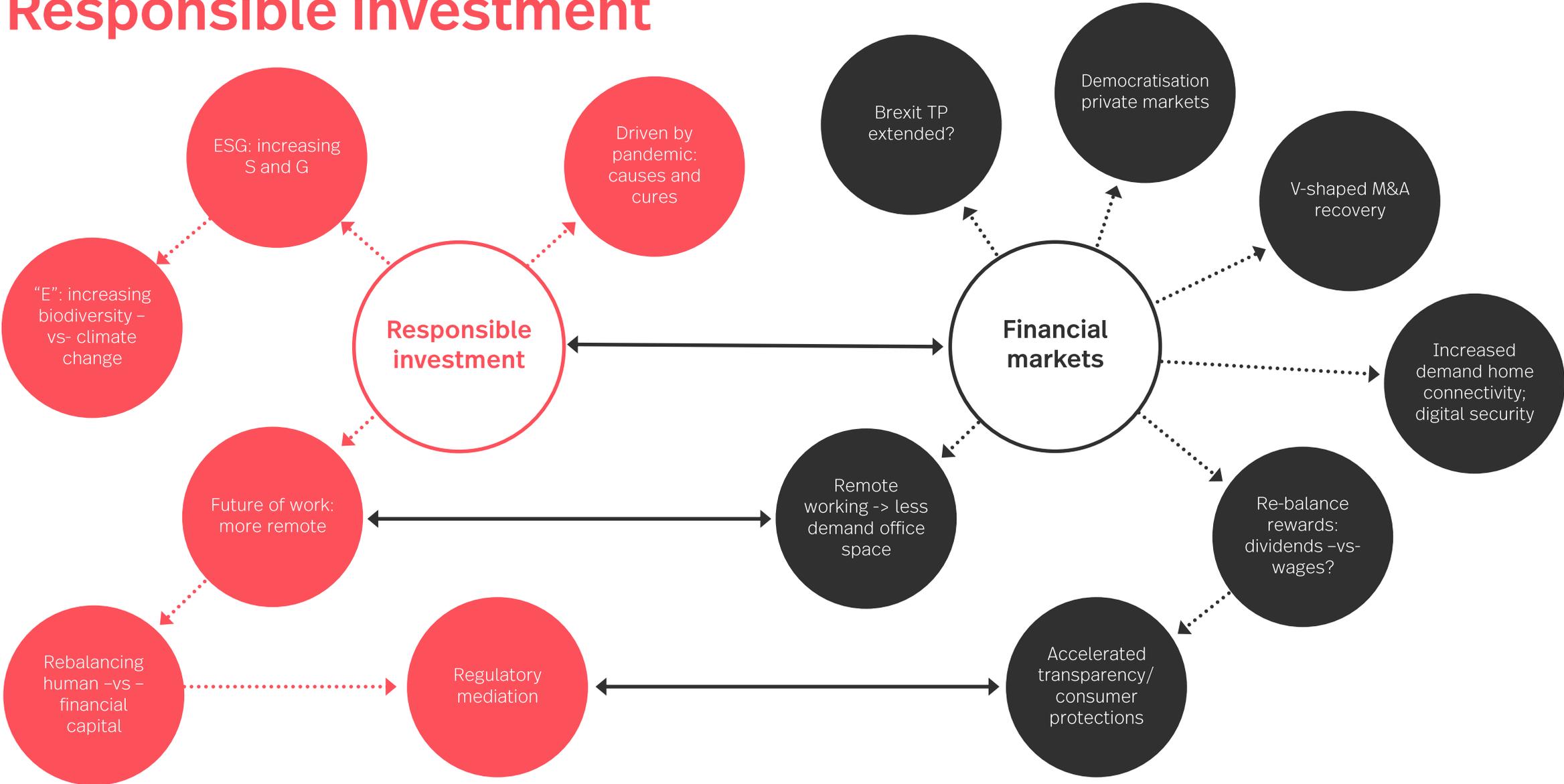
Markets	Base case: V-shaped recovery	After 2021?  W	U
Interest rates	Stayed down 7 years after GFC. 2027 post-COVID hike?	As for V-shaped ... maybe longer	Definitely longer than V-shaped
Inflation	Sharp falls then volatile to the downside	Ditto	Ditto – may not see the upside volatility
Bond yields	<ol style="list-style-type: none"> 1. Volatility around down-trend likely to continue. 2. Post-COVID ‘war bonds’ (100y) eg for ESG? 	Ditto	Ditto
Equities	Rallies may not regain pre-COVID highs for a while	Ditto – “bouncing ball” COVID seasonality caps rallies	Rallies unreliable
Corporate debt	Relief rallies especially in HY	Ditto	Ditto
Public versus private markets	May see increased retail demand for private assets/ funds in low/ volatile return environment for public markets	Seasonal COVID capping rallies in public markets may increase use of private market	As for W
Property	Increased remote working may reduce demand for commercial. Repurpose all/ part to resi?	As for V-shaped ... maybe more so	Ditto

Post-COVID scenarios: Responsible investment

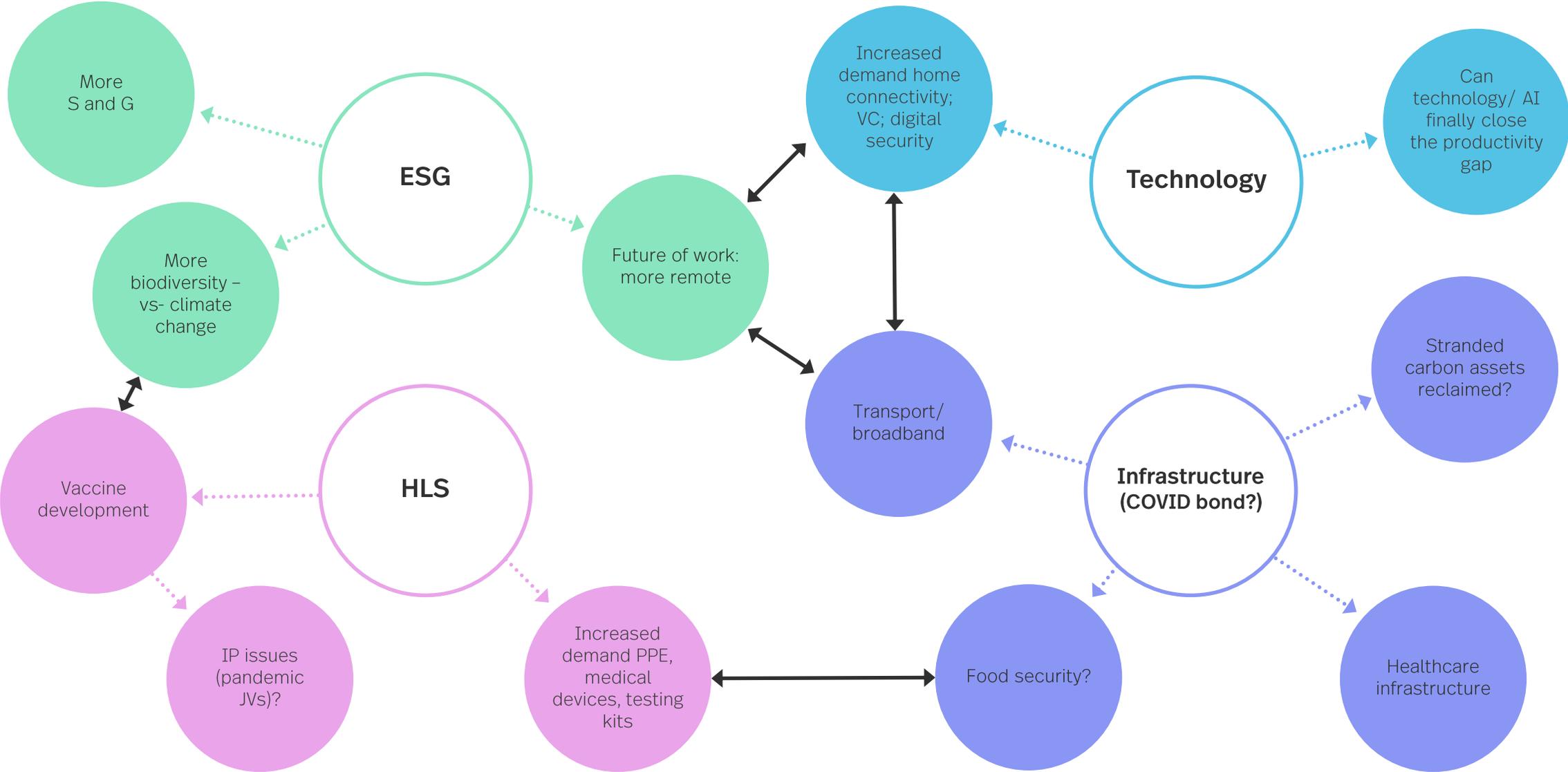


Responsible Investment	Base case: V-shaped recovery	After 2021?  W	U
Pandemic resilience	World seeks better ability to develop vaccines	As for V-shaped ... more urgently	More urgently again
Tackling causes	Loss of biodiversity (deforestation)		
Tackling vulnerabilities	Income inequality		
Remote working	New relationships employer and employee; new director duties for well-being of remote workers		
Rebalancing among ESG	Greater emphasis on S and G And biodiversity vs climate change in E		
Regulatory change	GFC brought new regulation for banking stability and consumer protection COVID likely to bring new/ stronger regulation for rebalanced ESG		

Mind map: Financial markets and Responsible investment



Mind map: Sectoral themes



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