

A year like no other

Last summer, life – or at least a marker for life – was discovered on Venus. Evidence that we may be sharing our solar system with other animate organisms would have probably been a headline grabber in any other year, but in 2020 the pandemic bound news cycle was simply too intense and congested to leave room for much else.

Without warning, our collective thoughts, actions, and discourse were singularly consumed in a way that has not likely happened since the Second World War.

Setting aside the health and social consequences of the events of the past 10 months, the economic impact has been profound. Effects at the micro level have ranged from the quirky (plummeting demand for edible seeds with the closing of ball-parks) to the poignant (multi-generational restaurants and other businesses collapsing under the weight of fixed costs and absent customers). The macro backdrop was equally dislocated, with a record surge in unemployment outdone only by the pace and magnitude of corresponding stimulus measures enacted by policymakers worldwide.

As extraordinary as the circumstances of 2020 were, however, so too was the speed with which economies and individual behaviour adapted to them. While some of the changes we've made will likely revert once the threat of covid-19 is less acute, some academics have suggested that the crisis has in some cases pulled innovation and economic evolution forward, jumping the world ahead to where it might have wound up in 2030. Some of the most meaningful alterations to our economy and way of life have included:

Rapid digitalization of the consumer economy –

Amazon started selling books over the internet because the company gauged that they were something that consumers would be willing to purchase without first trying or handling. As time passed, our willingness to buy other goods online persistently expanded, so that some of us are now able to exist with only sporadic visits to physical stores. The pandemic has provided a nudge to the last of the internet shopping holdouts, giving the once smoothly climbing path of e-commerce market share a sharp upward kink around the middle of the year. Retail experts now estimate that this sudden acceleration has pulled online retail adoption forward by about five years.

Work from home: tested and passed –

when business travel and the desire to cram into office towers plunged after 9-11, options to work remotely were limited. Collaboration technology was either clunky or non-existent and internet speed and penetration across households was too limited to accommodate a significant shift away from traditional work environs. When the pandemic hit, though, we were well-equipped, with many of us seamlessly adopting technologies that we might not even have known existed just weeks earlier. A survey of 15,000 individuals conducted by the University of Chicago found that 50% of workdays were spent at home in November vs. just 5% prior to the pandemic; importantly, respondents also expect to work from home 22% of the time once the health crisis has passed. The knock-on effects of this change to how we work, live, and commute are likely to be substantial and will undoubtedly carry consequences that are yet barely considered.

Entertainment – just as the infrastructure was in place to allow many of us to domesticate our work activity, so too were we able to bring cinema into the household when our ability to gather in groups was curtailed. As with online shopping, streaming service penetration surged during the pandemic and shows little sign of ebbing. In fact, the depth of the platform’s entrenchment was underscored by the recent decision of Warner Bros. to release all of its 2021 movies simultaneously in both theatres *and* through its HBO Max streaming service. With the pipes in place to deliver high quality video to our family rooms, it is likely that media battles will now be fought on grounds of content, to the ultimate benefit of entertainment consuming public.

Though it isn’t likely the first thing we think about when we turn on our computer or TV, the effectiveness with which providers such as Rogers Communications and Comcast have accommodated the jump in broadband traffic has been remarkable. For example, AT&T reported that by mid-April, internet volume on its system was up in excess 25% from the same period last year – for perspective, imagine the infrastructure strain that would be felt if highway, rail, or air traffic were instantly increased by more than a quarter.

Real estate – each of the developments listed above has had an immediate and considerable impact on real estate, with our changing consumption and work habits quickly sorting out winners and losers. If shopping mall owners faced an uncertain future a year ago, their push to repurpose these massive complexes will only have gained in urgency; likewise, office landlords which were once seen as stable coupon-clippers of dependable rent will surely be seen in a different light going forward. On the flip side, demand for the warehouse space needed to store and distribute online purchases has skyrocketed, while the multi-year trend toward resi-

dential densification has suddenly reversed, with individuals and families less concerned about commute time and more attracted to the elbow room of the suburbs. Though home improvement suppliers such as Lowe’s have been the immediate beneficiaries of this shift, it’s a virtual certainty that other economic impacts will follow in time.

Continued demise of physical cash – the accelerated move from in-person to online commerce has helped to boost cashless transaction volumes, with JP Morgan noting that the “card not present” share of total credit card spending rose from about 40% of purchases in February to more than 50% in early December. As well, the pandemic has made many businesses reluctant to handle notes and coins, so that even cash-intensive businesses such as casinos have introduced cashless technologies in just the past few months. Both of these trends support the already strong investment case behind credit card companies like Visa and Mastercard.

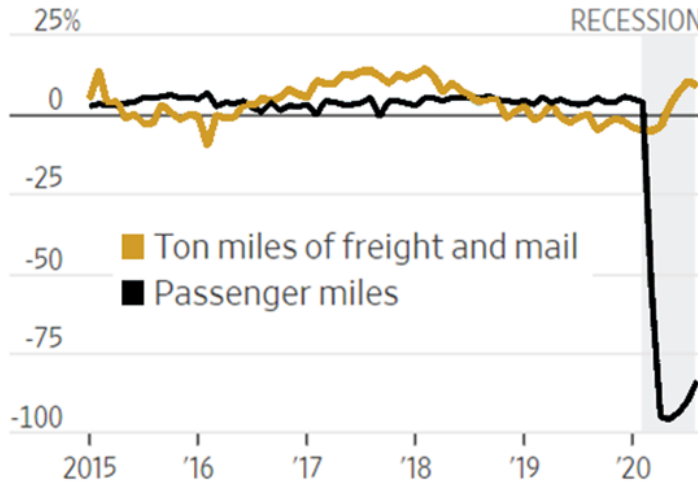
Energy – while it was mind-bending to see oil futures briefly trade at negative prices last spring, the effect of the pandemic on energy markets could be much more enduring. Even before the crisis, governments were raising their decarbonization goals, the cost of wind and solar power generation had fallen precipitously, and electric and hybrid vehicles were capturing a meaningful share of the automobile market. If a partial shift to remote work adds a permanent drop in commuter miles and business travel to this mix, we may have seen the peak in fossil fuel demand.

Innovation – though the extraordinary collaboration of the global scientific community in pursuit of a covid-19 vaccine has been much lauded, the rapid breakthrough probably owes more to technological innovation than to brute manpower. The vaccines now being distributed were the first to be created using “messenger RNA” tech-

nology, an approach that offers new potential for otherwise elusive diseases, including cancer. At the same time, quantum leaps made this year in the use of artificial intelligence (particularly by “DeepMind”, Alpha-bet’s A.I. research division) have come closer to cracking the code of ‘protein folding’, one of the most unassailable but critical hurdles in bioscience and drug development. These achievements affirm that innovation is alive and well and will continue to drive economic and human progress through engineering, biotech, and digital technology.

The accompanying chart shows the collapse in passenger air travel since last spring, contrasted against the rise in freight volume resulting from the e-commerce boom.

US Air Revenue Miles Change from year earlier



Source: US Bureau of Transportation Stats.

We could have included a near carbon copy of this illustration depicting any number of pandemic-related divergences: *meal delivery vs. restaurant reservations, streaming volume vs. movie theatre traffic, virtual vs. face-to-face meetings ... puppy purchases vs. business suit sales.* Through the coming months, our equity process will include an assessment of (a) which of the several transformations highlighted in this piece will be durable and (b) which firms and industries are best positioned to benefit.

To paraphrase the recent comments of one CEO, “Some businesses will look at 2020 as a lost year, while others will regard it as an accelerator toward long-term objectives”. As much as possible, we’ll tilt equity allocations toward companies and management teams which reside in the latter camp and underweight those in the former.