ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

> ***When the facts change, I change my mind. What do you do, sir?***
> *John Maynard Keyes*

Friday, 22 May 2020

In this week's Investment Insight

The beginning of the end
Sun-filled days, balmy evening barbeques, hoarding teenagers flirting in public parks: Covid…who-vid? Largely speaking, it's been a case of so far, so good with the great de-isolation, with government spokespersons even introducing the term "eradication" to the coronavirus lexicon this week. That said, while the local convenience store may already be seeing a brisk trade in breakfast rolls and Red Bull, not everything will return to the "old normal". In *The Inside Track* we consider some of the more consequential implications.

United they fall
The "union" of european countries appears to be anything but at the moment, with serious implications. The EU's response during the coronavirus crisis has been dire by most measures, with little solidarity for harder-hit countries such as Italy and Spain. In *Pic of the Week* we look at the impact as it manifests on credit spreads in the periphery.

Newswire
Some interesting nuggets from this week's newswires.

Market view
A visual snapshot of recent market performance.

The Inside Track: The beginning of the end

As restrictions are lifted, economies will ultimately recover from the pandemic-induced recession, but it is unlikely that everything will go back to the way it was. For investors a bifurcation, perhaps trifurcation, of the equity universe awaits, as investors segment the old and inefficient from the novel and slick. The post-Covid economy may display more permanent changes than we think.

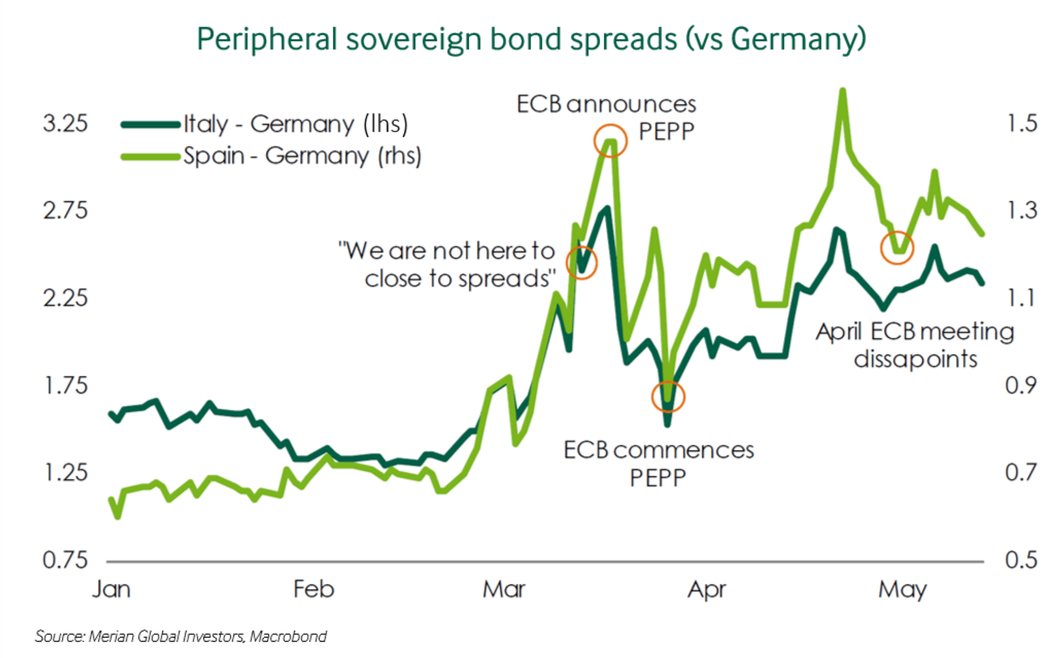
On one hand, some economic sectors (the "disruptors") are likely to benefit more than others from changing consumer behaviour and shifting preferences. On the other hand, certain areas may face greater challenges as a result of the changes, making them more "disrupted." At the crux, the swing factor between the two sides may well be each company, sector, or region's capacity and flexibility to adapt and evolve to changing behaviours and requirements. Importantly, the distinction between the two groups will become an increasingly relevant concept for investors.

While both “disruptors” and “disrupted” are likely to be found across geographies and industries, recent market dynamics might provide an indication of where the disruption is found. The signs could not be clearer: demand for healthcare and technology seems not only immune to the crisis, but also to be benefiting from it, while traditional manufacturers, financial institutions and energy have suffered the most. Somewhere in the middle are traditional industries accelerating their adoption of technological efficiencies - think of warehouse robots used by clothing retailers for example - to meet the changed paradigm. Those robots are no puppies, they're not just for Christmas. A technology-led world, combined with reduced global trade, may need less oil and more automation, while banks’ business models may be challenged with the protracted level of low interest rates.

While governments have started to take steps toward loosening the lockdown, the financial, economic, and health recovery from the pandemic is, unfortunately, unlikely to be smooth or easy. As such, investors should not underestimate that the way to achieve their financial goals might be markedly different now, as the “disruptors” take an ever-larger share of the pie from those “disrupted.” The ability to distinguish between both is becoming crucial.

Pic of the Week: United they fall

Europe's reliance on the banking system (relative to the US’s deep markets) has placed the bloc in waning health, especially the so-called peripheral countries where the EU's inability to agree on coordinated action is resulting in flagging ability to lend into the economy. Post-2008 banking changes impacted Europe a lot more than the US which attracts ample overseas capital. Furthermore, as we discussed some weeks ago, at a national level the lack of a European fiscal union creates credit spreads that restricts the transmission of the ECB’s monetary policy in southern Europe. The recent ruling of the German constitutional court against the ECB’s QE program is a massive embarrassment for Europe and Germany. At a time when all global central banks are functioning as lenders to governments (as they should), Italy is being cut off due to its membership of the Euro. Given the humanitarian crisis and the glaringly obvious nature of this deceit, this is a problem that Europe needs to solve, and fast.



Newswire

...on Monday
European shares rally after their worst week in two months, led by hopes of a gradual economic recovery with countries easing coronavirus-led lockdowns.

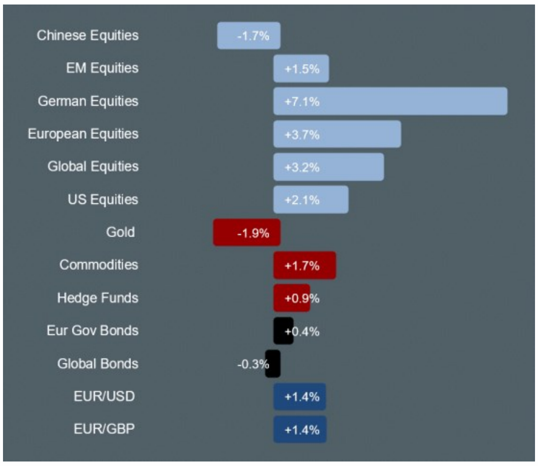
...on Tuesday
Fresh stimulus plans for the European Union announced.

...on Wednesday
The UK issues negative-yielding gilts for the first time ever, raising £3.75 billion.

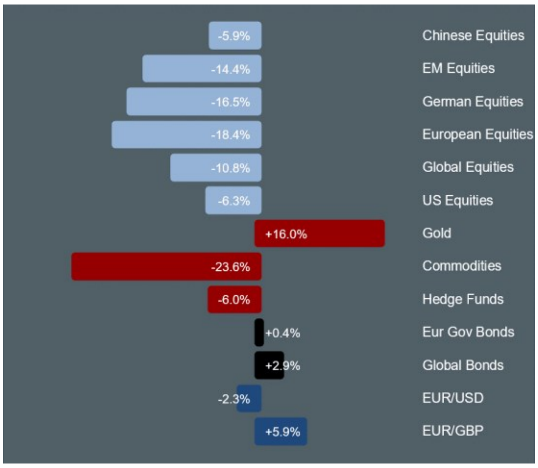
...on Thursday
Starbucks announces that, compared to the prior year, it has regained nearly two-thirds of US store sales following store reopenings last week..

Market View

Last 7 days (€)



Year to date (€)



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