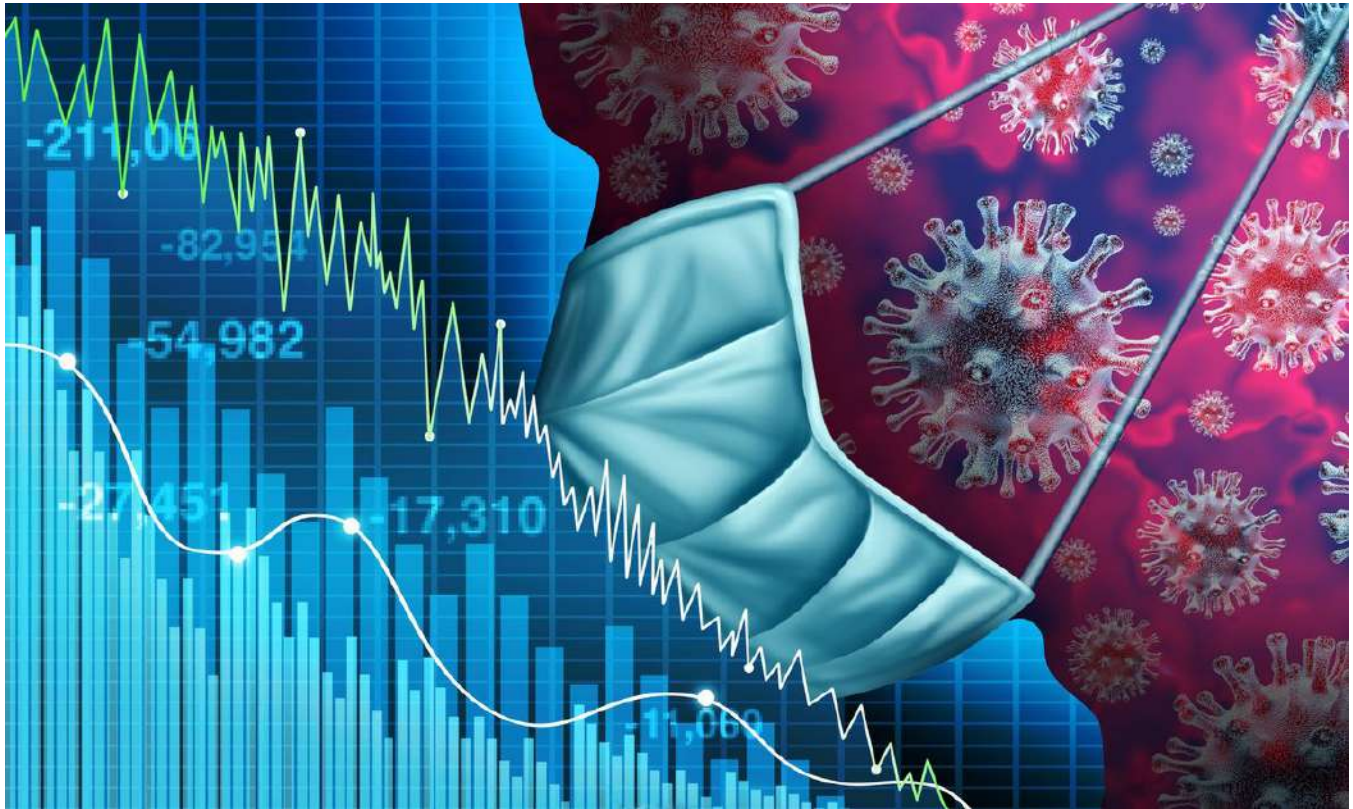


Investment Themes Likely to Drive Equity Markets Post Covid-19



As investors wrestle with how to protect their portfolios from the economic fallout caused by the coronavirus pandemic, here are some likely drivers for equity markets going forward, and they are similar to the themes seen in the last few years.

Certain themes – technology, ESG investing, automation, healthcare spending and de-globalisation are all areas likely to be focussed on ... once the pandemic ends.

Technology

Working from home and relying on remote access is becoming accepted as a viable way to operate normally after being put the test in the coronavirus lockdown.



Technology development has enabled remote working, and it is hard to imagine going back to a time of land-line phones and faxes.

The concept of 'working from home' is no longer a 'sneaky day off to watch daytime television', but a real and practical work solution.

Think about the reduced travel time, fuel costs, parking fees, train season tickets, and flexibility of working hours rather than the standard '9 to 5' and it works for many employees.

Add to that the reduced office space requirement, and the accompanying savings in office rental, desks and other office furniture, utilities bills, staff car parks and other overheads, and it is a viable working model for many employers too. It also seems to me very likely that our business world will evolve further into the cloud, hosting increasingly smarter virtual applications that accelerate corporate productivity and efficiencies.

Since the onset of COVID-19, the changes in ways of working, communication with customers, suppliers and colleagues which have been forced on businesses will trigger more permanent change in the future as companies adapt their working practices.

ESG (environmental, social and governance) Investing



Sustainability is an increasingly important aspect of the investment case for a company and investors are looking ever more closely at businesses' environmental impact and social and governance policies.

There will be increased demand for renewable energy, and products and services that will allow the world to function in a cleaner, more effective way than in the past.

Social responsibility towards employees and the local communities will also be increasingly demanded, driven, in part, but the loss of jobs during COVID-19 lock-downs. Those corporates trying hard to protect employees (with or without government support) are likely to be assessed more favourably.

This investment theme has been increasing in importance but is still not fully understood by a significant part of the investment community. It seems more than ever, this area of asset assessment will accelerate in acceptance over the next several years.

You can read more about this in my articles:

[Socially Responsible Investing : Part 1 - Balancing Good Will with Good Returns?](#)

[Socially Responsible Investing : Part 2](#)

Automation

Industrial disruptions, caused by a global pandemic or other economic stresses, make managers look closer at their business models, and automation may allow companies to improve flexibility on costs and capacity.

Energy, automation and robotics companies are likely to do well in this trend. iShares Automation & Robotics **RBOT** includes companies such as Nvidia, AMD, Apple, Intel, Garmin and Rockwell Automation, amongst many others in the field.

Healthcare spending

The Covid-19 pandemic has highlighted the limitations of healthcare capacity, both in private and public sectors. Stress has been highlighted particularly in countries where the sector has suffered spending cuts and austerity measures over the last decade.



It seems likely that popular demand will call for much stronger and more supple healthcare systems on which to rely at times like these. In the case of public health systems at least, the taxpayers will consider this a right, conferred by the payment of tax.

Equally, the private sector will also be reviewing its business model. It is interesting to see the discounts advertised in my small part of the world by local private hospitals, offering 30 to 50% discounts on a selected array of treatments and services.

Perhaps there will be a rethink in terms of contracts in place between the public and the health sector, and a serious review of the level of private sector involvement in healthcare provision.

Innovations, like more generic drugs, more standardised equipment and medical procedures, along with more inter-healthcare company collaboration seems likely.

The popularity of health-tracker apps and wearables like Fitbit allow people to be more aware of the state of their overall health, and therefore expect their healthcare providers to match their levels of connectivity. The impact of COVID-19 may well drive this 'personal healthy living' market to new heights, and government support for any drive to greater fitness and better health will surely be watched by pharmaceutical companies, along with medical equipment and health testing companies keen for some of the action.

You can read more about this in my article: [Why Do My International Healthcare Premiums Keep Increasing?](#)

De-Globalisation



After several decades of increased globalisation, COVID-19 has highlighted some of the dangers of outsourcing production to a specific geographic area.

Narrow and unforgiving supply chains were already being exposed as a risk by the USA/PR China trade war, which rumbled on during 2019.

The ebb and flow of face masks and other personal protective equipment, for example, from America and Europe to Asia in January, only for the traffic to reverse in March, seems ludicrous, but necessary when there are so few suppliers. Both the business community and governments will surely make reduction of this risk a high priority.



A great positive of this situation is the agility of some companies, showing their ability to adapt their design & production facilities in the Covid-19 crisis.

Ford in the USA, Airbus, McLaren and Dyson, in the UK, and many other normally unconnected firms collaborating to produce ventilators and other ancillary medical equipment shows what can be done when the need, urgency and sense of social responsibility is there.

In more 'normal' times this may well prove a market winner. (refer to the ESG section).

Combined with this review of supply chain and production agility should be assessment of company balance sheet strength, levels of flexibility on costs, and margin protection.

Free cash flow, and dividend payments are likely to be critical as companies balance these against reinvestment in the company, and political sensitivity will play a part. Some asset managers would suggest, for example, that a consumer staple (eg Costco, Coca Cola, Walmart, Sainsbury, Unilever) 25% of free cash flow be paid as dividend, leaving 75% available to reinvest into the business, reducing debt, or for future acquisitions.

Ultimately, the markets will find a way forward, albeit driven by a few dominant sectors. A well-balanced, risk-appropriate approach to your portfolio will ultimately win the day over trying to time markets. Adjustment to augment those market sectors with a more prosperous mid-term outlook, (and reducing exposure to those likely to suffer long-term) may incrementally enhance long-term performance of your portfolio.

You can read more about this in my article: [Is Market-Timing A Viable Investment Strategy?](#)