International intermediaries

In flux

Investing in change

Rathbones
Look forward

In the KNOW

We don't have all the answers, but we have plenty of opinions.

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The value of investments and the income from them may go down as well as up and you may not get back your original investment.

David Coombs is our head of multi-asset investments, having joined us in 2007. He is the lead manager of our Rathbones Multi-Asset Portfolio Funds and offshore Luxembourg-based Sicavs. David is also a member of our Investment Executive and Strategic Asset Allocation committees. He is responsible for developing our investment propositions for national financial advisory firms and networks.

David previously worked at Barings for almost 20 years where he managed institutional and private clients via pooled vehicles and segregated accounts. He joined Barings in 1988 from Hambros, where he managed multi-manager portfolios for private clients.

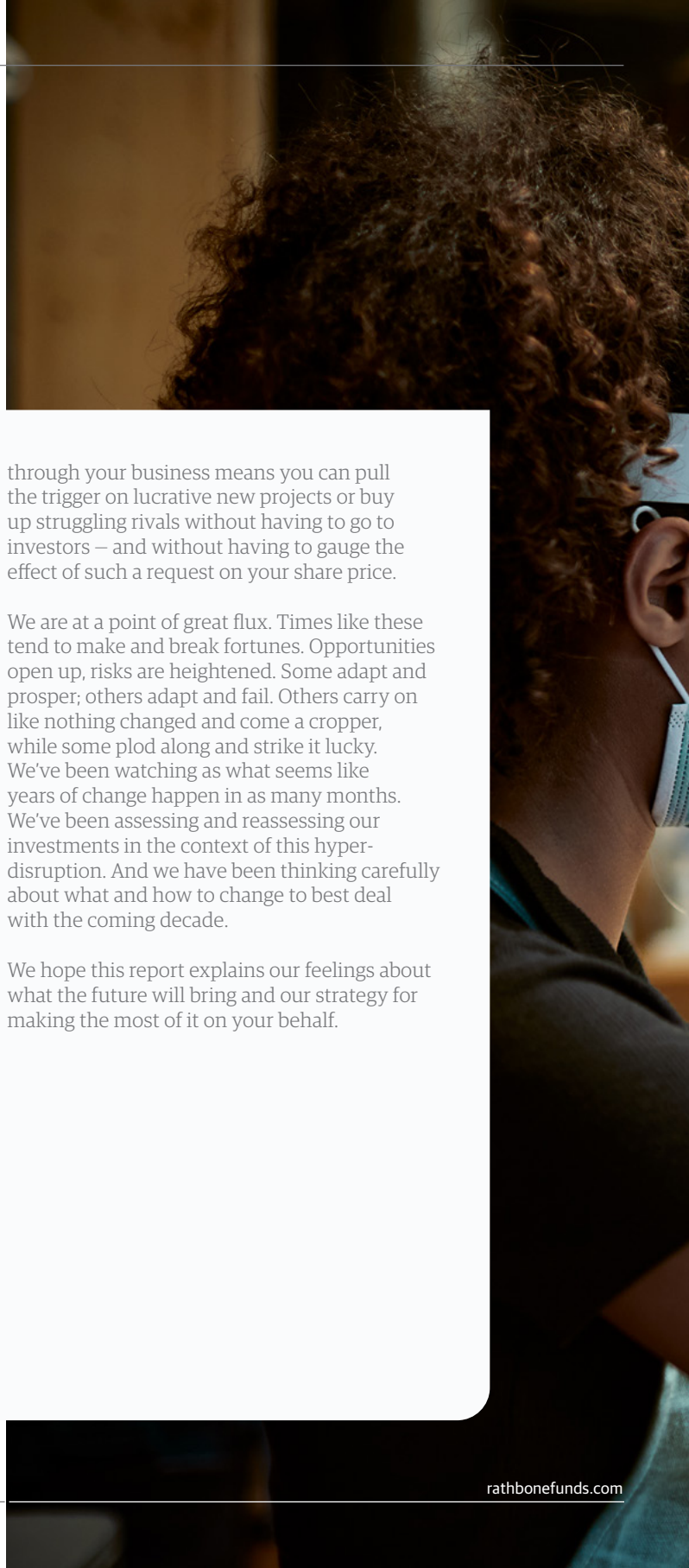
In flux

Investing in change

They say it takes six months to cement a habit. After that, you start to accept your new reality.

You can feel it – or at least, I can. Going out seems more of a chore, except for the exercise regimen that is, everybody seems to be on that train. But having dinner with friends, going for a pint (gluten-free in my case), returning to the office? These concepts feel alien even when you do manage to overcome the threshold of your home and give them a go.

It's hard to determine how many of these changes are permanent and how many we will be looking back on in another six months' time as a strange aberration. Yet, as investors, it is our job to think through all these developments and then act on what we believe. We won't be able to get them all right, but the plan is to anticipate most of them and not to make more than one or two clangers along the way. →



We've been watching as what seems like years of change happen in as many months. We've been assessing and reassessing our investments in the context of this hyper-disruption.

When investing, it always pays to think about how you would react to a given situation – as a customer or a businessowner – and then map that onto what you know about a company. You should also be asking everyone you know what they think too. Not just investment professionals either. Much of the time the people who cut through all the twaddle and get to the heart of a product or service are the customers. There's a great TV series called Silicon Valley that comes to mind. A bumbling gang of computer geniuses create an incredible software program that gains plaudits from the industry, so they are quick to dismiss the misgivings of a potential customer who can't work the interface. Not a great move when they are targeting the less-tech-savvy masses ...

These thought experiments about how products and services will be utilised to adapt to a new future aren't done simply for fancy. What you're trying to nail down is, does this change create an opportunity? Does it add more risk? Does it change the market landscape substantially? Then it's all about deciding whether companies can thrive in, or at least deal with, the situation you think is most likely: how competent its managers are and how flexible it can be as a business. This is why we're so hot on companies having relatively low levels of debt and why we prefer them to produce a lot of earnings in cold cash rather than promises to pay later. Simplistically, these two features are bywords for flexibility. There's a saying that money can't buy you happiness, but it can buy you freedom. This truth applies to companies too. Having lots of cash flowing through your business means you can pull the trigger on lucrative new projects or buy up struggling rivals without having to go to investors – and without having to gauge the effect of such a request on your share price.

We are at a point of great flux. Times like these tend to make and break fortunes. Opportunities open up, risks are heightened. Some adapt and prosper; others adapt and fail. Others carry on like nothing changed and come a cropper, while some plod along and strike it lucky. We've been watching as what seems like years of change happen in as many months. We've been assessing and reassessing our investments in the context of this hyper-disruption. And we have been thinking carefully about what and how to change to best deal with the coming decade.

We hope this report explains our feelings about what the future will bring and our strategy for making the most of it on your behalf.

How we live

We will not be home and dry by Christmas. We will most likely be home though.

The pandemic continues to linger, showing a persistence that should temper any unbridled optimism about the future. Flare-ups are commonplace around the world, regardless of how well the first initial fight went or how long the virus has been kept at bay.

It seems likely to us that COVID-19 will keep erupting and dying away for months and months, if not years. The swift and practical responses from healthcare workers and pharmaceutical companies have helped find treatments that go some way towards reducing the strain on hospitals. Yet only an effective vaccine would help curb the risk of overwhelmed health systems without having to resort to sporadic wholesale lockdowns of towns, cities and nations. Eradication is another matter entirely, however. Banishing an infectious disease can be done, but it takes a sustained, global effort and a lot of time.

The fear of COVID-19 could be difficult to eradicate too. The rapid spread of the virus, its symptoms and even its genetic make-up have been scrutinised and discussed by us all. It's still unclear how long people retain immunity after

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fighting it off. Scientists are finding new and strangely lingering aftereffects in patients. It's all very hazy and uncomfortably fluid. Everything, that is, except for the number of cases and deaths. They are stark, and updated by the minute.

The fear has made some people pause before accepting lunch invitations. Others weigh "how sensible" friends have been before agreeing to meet up ahead of visits to older family members. All of us hardly bat an eyelid at shuttered stores, elongated queues and menus delivered by QR codes. Sudden border closures, tight seating and odd rules now make overseas holidays a game of roulette too. At the height of the most globalised age in human history, our worlds shrank to the local neighbourhood. From habitual globetrotters to a range not much different to the Middle Ages.In short, virtually overnight our lives were upended.

Yet we've adapted. Many of us know our neighbours and locales better than ever before. Phone, wallet, keys, mask – the updated check list as we head out the door. The use of online shopping has soared, especially among the older generations. The long-lost art of home cooking has had a revival, especially among the younger generations. Locked up at home, many of us have decided to get onto the DIY projects that we'd never found the time to get onto before. Home improvement goods and gardening supplies have flown out the door so far this year. If we're going to spend more time hanging round the house or flat in future, we're going to make sure we like what we see. But there are also big changes in what you don't see. More people working from home has meant a surge in purchases of bin bags, for instance. It will also change the dynamics of power supply and drive more people into faster internet connections.

Shopkeepers, restaurateurs and bartenders have adapted too, rejigging their premises to keep people apart and entice people back in the door. And helped by slugs of government cash, more than a few have been pretty successful so far. Meanwhile, crossing the street to avoid acquaintances is considered polite everywhere now, not just in London.

Speaking of big cities, people are questioning the future of metropolises for the first time in our lifetimes. With a deadly virus sweeping silently between us, the crush of people has lost its appeal. Public transport, once vital arteries, are now widely shunned; parts of cities are looking a little like spooky abandoned fairgrounds. But it's hard to write off big cities completely. For one, they are extremely useful; they grew for a reason. As author F Scott Fitzgerald put it in *The Great Gatsby* almost 100 years ago: "I began to love New York, the racy, adventurous feel of it at night, and the satisfaction that the constant flicker of men and women and machines gives to the restless eye." They aren't for everyone, but they are fun to live in, filled as they are with restaurants, cafes, culture, theatres and clubs. They are big enough that anyone can find a kindred spirit, at least one person to bounce ideas and jokes off, regardless of how niche are your tastes. And this whirlwind of life and ideas boosts productivity tremendously.

Our stocks

THE CLOROX COMPANY

A California-based chemicals manufacturer that makes cleaning supplies around the world.

- Demand for its disinfectant soared 500% during the pandemic, while widespread home-working has meant more bin bags and salad dressing
- Clorox spends more on research and development than its rivals, to try to offer the best products
- Technology is used wherever possible to automate tasks, including simulation software to experiment less wastefully

Yet that's not to say people may not cool on big cities for a time. New York was roaring when Mr Fitzgerald wrote his magnum opus, yet the mid-century was not kind to it. By the 1970s the Big Apple was burning and on the brink of bankruptcy. Many other great cities were in a similar position, London included. For the past 40-odd years, cities have made a come-back,

Our stocks

Adobe

A Silicon Valley creative software developer that's supplying the weapons for the online marketing wars.

- Adobe's suite of products encompasses photography, design, e-commerce, cloud storage and machine learning
- Many companies must improve their digital marketing capabilities and ensure e-commerce tools are embedded in them, Abobe can help with both
- Selling online is all about eyeballs, so marketers are looking for new and exciting ways to capture attention, like Adobe's augmented reality products that fuse the physical realm with the digital

cleaning themselves up, enticing people back with all the delights of a metropolis. But this resurgence was accompanied by rapidly soaring property prices as job opportunities were sucked away from the hinterlands and hoarded in the cities. Rents are exceedingly high and property prices are disproportionately inflated by proximity and access to cities. Have cities priced themselves out of the market for society? Cities have always ebbed and flowed, could the pandemic end up being our generation's peak? In the US, the number of people leaving great cities like New York and San Francisco for more liveable smaller cities was already rising before the pandemic. Now the demand for suburban homes and places with gardens has ballooned – as it has in the UK. If smaller towns and cities start to offer a little more action with much more affordable costs of living, big cities may get a useful bit of competition for citizens.

One thing's for sure: technology makes it much easier for smaller businesses to start up wherever they like. Social media enables them to specifically target potential shoppers. Cool computer programs have scythed the time it takes to keep books and calculate taxes, allowing them to focus on the actual business. And it's even easier if shops go cashless as sums are done instantly. Before the pandemic it seemed like every second cafe or shop had stopped accepting cash. Now it's unusual to find anyone who hasn't completely embraced contactless as a safer alternative to notes and coins. The continued rise of digital payments is a good part of the reason why we own Visa and Mastercard. These electronic-payment giants have built the only truly global networks that provide the plumbing for card-based commerce worldwide.

A marked acceleration in the digitisation of our world only encourages people to take up the option of living where they like, rather than having to chase jobs. This greater use of the internet shouldn't be downplayed. As shops had to shut, the number of wholesalers selling their wares online to the retail crowd shot up. Suddenly everyone's social media feeds were inundated with sponsored posts that had a decidedly outlet-store vibe, hawking all sorts of goods and clothing. Manufacturers looking to offload stock that they would usually be pushing through (then-locked-down) retailers, found they could quickly and easily set up an online store. Suddenly, factories with no brand or retail footprint whatsoever could gain access to millions of customers. If these manufacturers and food wholesales were successful – and given soaring e-commerce sales it seems likely they were – they have unlocked a new strategy that could change supply chain dynamics. Retaining this option after the pandemic could give producers more bargaining power against retailers and give them an outlet for clearing inventory on their own terms, rather than relying on discounters to do it for them. Not great news for middle-of-the-road retailers.

Meanwhile, the household demand for online shopping has shot up significantly. Older people who were perhaps sceptical or set in their ways suddenly had no choice but to give online commerce a go. It's not just a matter of demographics, either, the pandemic has pushed online shopping rates higher in traditionally laggard countries, particularly those in Europe. It will be intriguing to see whether people who have been propelled into shopping via the internet find it useful enough to continue once the pandemic crisis is over. One of our holdings is Amazon, which certainly thinks the lockdown boost to its already enormous global sales is here to stay. It has hired 100,000 extra staff and has already embarked on employing →

75,000 more. Other companies are hurrying to improve their own logistics enterprises to get a bigger slice of the e-commerce pie. Whether it's Amazon or those trying to catch up, they will need to become constantly more efficient. This trend is part of the reason that we own Kion, a German firm that designs and kits out automated logistics systems for its corporate customers.

Our stocks

KION GROUP

A German warehouse and logistics design and automation expert, supplying robotic arms, mobile robots and state-of-the art conveyors.

- As e-commerce explodes in the wake of the pandemic warehouses are accelerating automation plans to increase their efficiency and get more orders out the door
- Kion is helping supermarkets develop click and collect grocery; its system takes 12 weeks to install in a store and can then have an order ready to go within 15 minutes
- Investment in logistics is spread across all consumer industries, particularly as more producers start selling direct to consumers

In the digital age, we truly believe that if you're not the cheapest or the best, you're toast. These dynamics help boutiques rapidly gain customers at the expense of middle-of-the-road rivals with tired brands, even as the largest players squeeze them on cost. The effects of the pandemic simply reinforce our assessment.

How we work

This spring, motorways the world over were silent. The snakes of miserable people creeping along in a haze of simmering rage and carbon monoxide were all gone. The environmental benefits were recorded in city after city and commuters suddenly got hours of their lives back.

We were all pleasantly surprised by how smoothly we could shift virtually overnight from working in offices with all the 21st century mod cons to logging on at home with a laptop on a pile of books and an internet connection. It turned out remote working, for most white-collar industries, was possible all along. Most of us will now be very well acquainted with the video conferencing software of Zoom and Microsoft Teams. These sorts of programs will be extremely important for everyone to continue working in a flexible fashion. Microsoft, which we bought in the March sell-off, has done the unusual feat of rejuvenating itself after falling from grace in the 2000s. It did so by focusing on creating a flexible and reliable platform for businesses, linking everything from computer systems and email, to managing customer information and marketing. We believe that it will continue to benefit from rising digital spending globally. ⟶

Our stocks

Microsoft

The original operating system monopolist of the 90s is still a huge player in personal and business computing through Windows, its Office suite, cloud-computing arm Azure and business analytics tool Dynamics.

- Teams, a video conferencing and business communications program that synchronises with Office email, has ballooned in demand during the pandemic
- The huge video game market continues to grow, Microsoft's Xbox and Sony's PlayStation are the two big dogs in the industry
- A good deal of home-working is likely to remain after the pandemic, and we believe Microsoft's interwoven web of software offers a one-stop solution for businesses, large and small

Many workers around the world have rejuvenated themselves during lockdown too. Wellness, already a growing trend, bursts forth every lunchtime in a wave of Lycra and good intentions. Rather than pouring their cash into overpriced sandwiches, people have started making their own. And some of the savings are getting spent on health supplements, sales of which have shot through the roof. People started actually spending time with their families during the week. The benefits of home-working are so inarguable, both in terms of output and mental and physical wellbeing, that it will most definitely remain in some form once the pandemic is behind us.

Yet, for all this wonder, the glow is fading. A completely remote work existence has too many issues to last long. You can already spot some of the downsides. When everyone is labouring alone it can isolate people and make some teams more siloed. Spontaneity must be planned. Zoom calls dominate your days and they aren't ideal for big groups. Many businesses must be missing out on that mix of ideas that only a buzz of people working in proximity can create.

Some companies have been quick to announce a new, ultra-flexible era of working. One where you can work wherever you want whenever you want. We are big fans of the flexibility and feel like this acceptance of remote working should have come years ago. Yet we feel like a balance is needed. There is an idealised exemplar of the commuter saving herself the wasted time of a commute and working harder and longer at home. While this is no doubt true in many instances at least some of the time, I'm not so sure this captures the full truth of what's happening with office workers.

Some of us can't wait to return to the office. To pry ourselves away from little Jimmy's inane chat and wailing cries (even though we love him dearly), so we can get some work done (enjoy a day of blissful workday monotony). Others are struggling with the opposite: spending day after day alone in silent homes that feel more like cages with each passing week. Many of us would rather entertain other distractions around the home than scroll through those spreadsheets. It takes a good measure of discipline to do your work as diligently when you know no one can see you at any point throughout the day. This idea was fleshed out in the 18th century by philosopher Jeremy Bentham, who noted that prisons and workhouses would get more bang for their labour if they implemented a panoptican. This dastardly design allowed all working inmates to be seen from a central guard tower, yet in such a way that they couldn't see if the guards were actually there. The inmates must assume they are always under surveillance (even if they aren't), so they work as hard as possible. And you may not have to hire any guards at all. You can see how this form of thinking no doubt had some influence on the idea of the open plan office ...

But over the past few months, we've been freed from our modern panoptican. It seems to me that a more realistic – a more human course – is likelier than the paragon commuter we mentioned before. You have to assume that some people will do the bare minimum of what's expected of them while working remotely. It's harder for managers to judge how over or underworked people are when they are out of sight. Some of them will feel that the only way to be sure workers are engaged is to overload their time with remote meetings, entrenching debilitating micro-management and sucking up employees' time. Meanwhile, there's less camaraderie to compel workers to come to a colleague's aid – if they even know who's struggling – especially when it's less likely to be noticed by higher-ups who could deliver promotions or rewards. I don't mean to sound cynical or cruel, this is just human nature. And we have to remember that we invest in the world as it is, not as we wish it to be.

If we are right about this, companies aren't likely to be jettisoning their offices anytime soon. And if they do, they may come crawling back a few years down the line when they realise just what they are signing up for. Exactly how those offices are set up, though, is one potential change. Rather than having one large, centralised office with only smaller outposts in the regions, we may see companies become spread among satellite offices. In this model, medium-sized offices spring up all around the country, increasing the size of regional outposts while HQ sites shrink. That could make white elephants of the skyscrapers of central London and the beefy anchor sites in other larger cities. This would have serious implications for any property funds that are chock-full of these assets, as well as pension funds that have loaded up on property in recent years. But this change would be a boon for smaller towns and cities all around the UK. Not only would it spread more of the discretionary spending of the outlying regions beyond simply the regional centres, but it would allow businesses to hire people who wouldn't usually be interested in travelling far afield.

All the tools are there to allow this to happen, and we own several companies that supply them. We've already talked about Microsoft and its Teams service, but there's also Adobe, which →

Our stocks

accenture

A global consulting and outsourcing giant, specialising in digitisation, which works across 40 industries and 120 countries.

- The world is changing rapidly, pushing many large organisations to adapt their strategy and processes
- Many businesses still have a lot of digital transformation ahead of them
- Accenture is focusing on the cloud, big data, artificial intelligence, and cyber security, putting it at the forefront of how businesses need to evolve

owns the eponymous PDF which is the key to clearing all that paper from the world.

Adobe has a whole suite of design technology that allows users to move seamlessly between locations and devices as they work, perfect for the flexible-working age. Meanwhile, behind all these whizzy digital services hum the distant, nondescript data centres of companies like Amazon Web Services and Microsoft Azure. Without these storage facilities for information and computing power, the remote operations of millions of companies would be impossible. In the digital age, demand for this electronic backbone is only going to increase. That's why we own Equinix, which builds and operates data centres for the networks and cloud providers who are their customers.

Our stocks

EQUINIX

A property investment company that builds and operates data centres in 25 different countries.

- Our world becomes more digital by the day, and data centres are the crucial foundations that no-one sees
- These digital warehouses are complicated beasts, giving specialists strong moats to would-be competitors
- Reliability is key for their customers so Equinix being one of the top players in the space provides a level of comfort and reassurance that critical connections are stable and secure

And we're not all office workers, mind. Manufacturing is intuitively thought of as a weak point during a pandemic because of people having to work close together. But actually we've seen that it's the service industries that are most vulnerable, and they account for 80% of UK workers. We always think of service jobs as office jobs, as lawyers, computer programmers, accountants and creative industries. Yet so many more of these jobs are in cafes, restaurants, bars, motels, malls, high streets and holiday parks. These businesses have shown that it is possible to reopen and operate during a pandemic. But it's expensive and fraught and at continual risk of having to shut down. This is because the very act of coming together is both the point of these businesses and the reason that the virus is passed on. The nations who fared worst during the lockdowns tended to be those with outsized service sectors.

Back to manufacturing. The most difficult operations to restart during a pandemic are those that are least mechanised. Given the steady disintegration of trading links between the West and China, we may find that greater onshoring of production is combined with technological investment. That would mean more manufacturing jobs, albeit they would be more highly skilled and less numerous than you would otherwise expect.

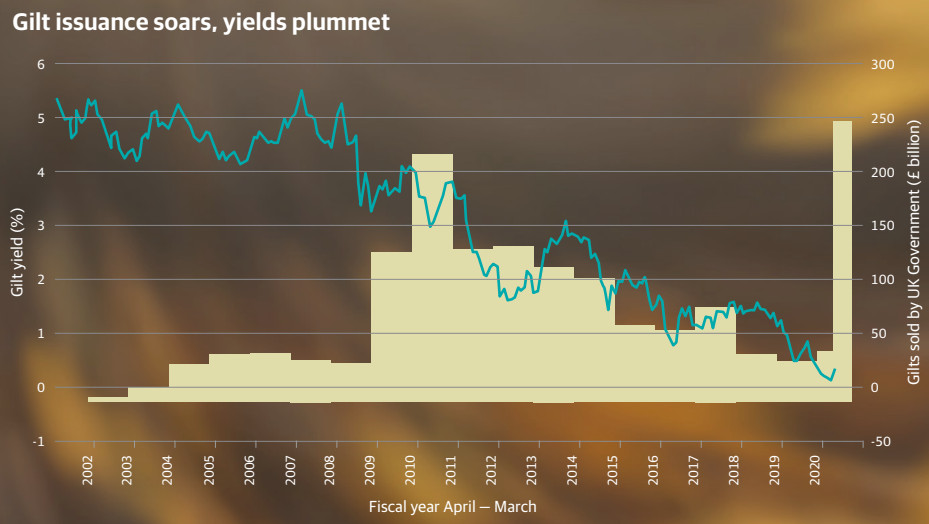
For us, what everything comes back to is that regardless of what industry you're in, how well you can use technology to solve your problems is key. That's why we're still invested in companies like Accenture, which help businesses design and implement digital strategies. For years, many businesses have been lax in rolling out technology. They've either been nervous about getting it wrong or they've been complacent about needing to do it at all. In six short months the pandemic has compelled companies to make six years' worth of progress toward digitising commerce. And those that haven't, or can't, are getting left behind.

How we pay (for it all)

After a decade of cuts to UK public services in a vain attempt to balance the books, the pandemic has made the whole affair seem as pointless as raking leaves in a windy park.

UK government debt had blown through £2 trillion by August. With tax revenue slumping and support programmes in large quantities, it's no surprise that our country's debt pile is now bigger than the value of our economy. You can see just how much more public debt has been piled on from the chart below. Plenty more UK government debt is coming down the pipe between now and the end of March 2021. Despite that, the yield on a benchmark 10-year UK government bond has stayed remarkably low.

The UK is in no way an outlier here either. The US and Europe are in a similar position. The European Union has broken the habit of a lifetime by releasing the reins on member states' finances, allowing them to ramp up debt to meet the pandemic head on. In response, the German 10-year bond, the EU's de facto benchmark debt, yields -0.5%. Even problem child Italy's debt has marched steadily downward, trading around 1.0% in August (as recently as 2018 it was above 3.0%). →



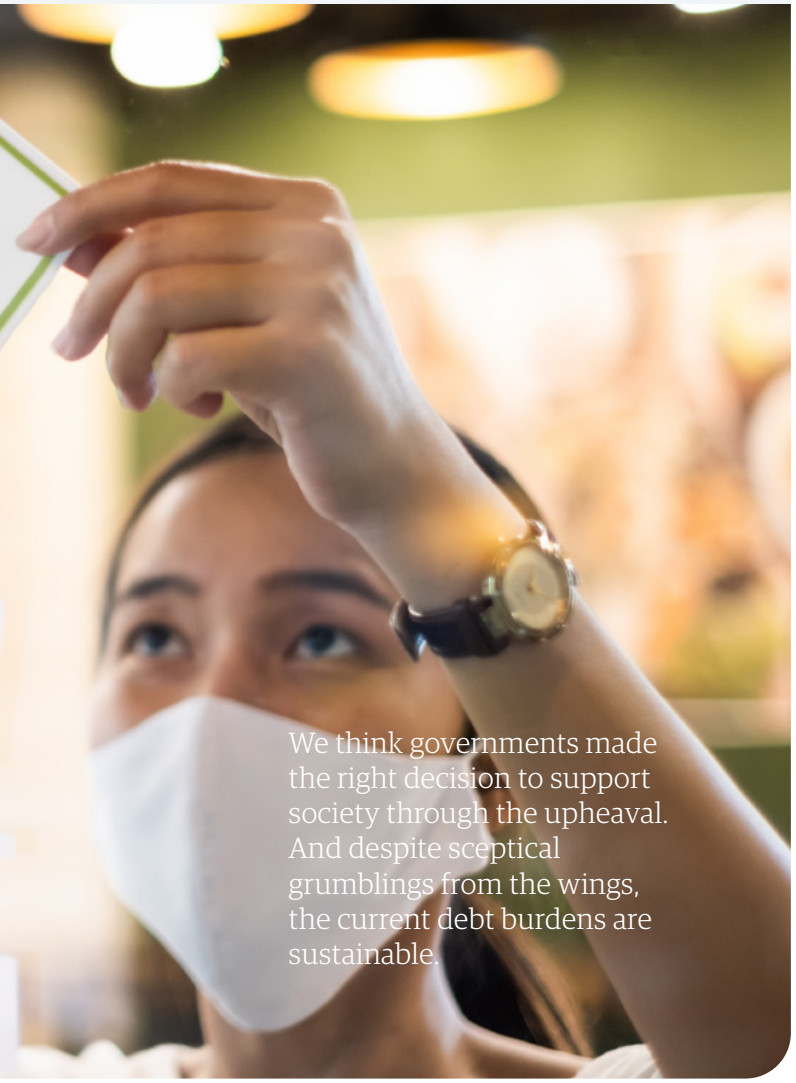
Like when someone dumps a few tonnes of Burberry hats on the market, typically, a tremendous increase in the supply of something sends prices sinking. For bonds, which pay fixed coupons to bondholders, lower prices would mean higher yields. So why has this river of debt not pushed yields higher all around the world? Because much of the newly issued debt has flowed swiftly into the ocean of bonds held by central banks. According to our research, during the first three months of the COVID crisis central banks bought bonds and other assets worth, on average, about a tenth of their nation's GDP. This is much, much quicker than during previous bouts of quantitative easing (as these purchase programmes are called), with plenty more to come. As of mid-August, the Bank of England owned £655 billion of gilts, or 35% of all the UK government's outstanding bonds. It also owned another £18 billion of corporate bonds on the side.

Since the 2008/09 credit crunch, we have all become a little blasé about the ever-more-ambitious stimulus conjured by governments and central banks. But the public stimulus response to COVID-19 is in a class of its own. According to the International Monetary Fund, by the end of July advanced economies' debt was higher than in 1946 after six years of world war. Now, you will hear this comparison a lot, yet you should know its limitations and be aware of the differences in circumstances: national GDP goes up along with debt during wartime because of the increased production of tanks, ships and guns; during the pandemic lockdown, debt soared at the same time as GDP plummeted. That exaggerates today's increase in debt-to-GDP ratios. Yet it doesn't detract from the fact that world governments have shouldered incredible debt burdens at an unprecedented pace.

The reason I'm stressing all of this isn't to scare you, and it's not to rail against the profligacy of our age. It's to highlight just how much tax policy, growth strategies and financial management will have to change over the coming decades to pay for this bailout of society. It will make UK's austerity campaign look like a molehill, as foundation-rumbling

as it seemed at the time. But that doesn't mean we're expecting Austerity 4.0: Global Edition. On the contrary ...

When COVID-19 began spreading like wildfire in February and March, governments saw the danger it posed to our economies as well as our health. Lockdowns unaccompanied by extraordinary support packages to keep shuttered businesses and out-of-work employees afloat would have disintegrated as people became desperate to feed their families and make rent. The economic catastrophe of widespread layoffs, bankruptcies and destroyed



We think governments made the right decision to support society through the upheaval. And despite sceptical grumblings from the wings, the current debt burdens are sustainable.

commerce would have been cataclysmic. It's highly likely that we would have ended up in a relatively similar position of straining public debt to GDP, yet with the added bonus of a deflationary spiral akin to the Great Depression and a much heavier death toll. We think governments made the right decision to support society through the upheaval. And despite sceptical grumblings from the wings, the current debt burdens are sustainable. As long as people believe inflation is likely to stay low and as long as interest rates stay low, it makes sense for governments to step into the breach and make up for sharply lower household and business economic activity. We used to call this Keynesian policy; it's a legitimate way of boosting economies and avoiding deflation. The key is that bond yields – governments' borrowing rates – remain affordable and that the money is invested well. Upskilling workforces, improving obsolete infrastructure, rolling out cleaner energy generation and fancier technologies all boost productivity and should result in *permanently* higher future GDP and greater tax revenue.

This more stimulatory path has a much greater chance of success than raising taxes across the board and hacking at public spending. An austere path would reduce economic activity at a time of anaemic growth, risking a deflationary spiral where prices continually fall, leading to job cuts that reduce economic activity further, leading to yet more job cuts.

There is a third path to reducing government debt: stoking up inflation so that the rate is higher than the yield on the bonds. That erodes the 'real' value of this borrowing. This is already happening to a degree, simply because bond yields are so very low. And the US central bank has already moved to an 'averaging' inflation target that implies lower rates and higher inflation in coming years. Yet any attempt to accelerate this phenomenon comes with a bucket of problems, most pertinently that bond yields start to rise as people worry about higher inflation, forcing inflation yet higher to achieve your purpose. And it all but guarantees a recession at the end of the cycle when you've had enough of inflation and want to bring it under control. There's one other issue: central bank credibility. Our fiat monetary systems – money backed by nothing but an ability to raise taxes – work because people trust central banks to keep inflation low and the value of money stable. By working together to cook up inflation, governments and central banks tinker with that independence at their peril.

To protect ourselves in the event they get it wrong, we've tried to build up a range of investments that investors tend to flock to in times of stress, such as commodities, like gold, industrial metals and food, and global 'reserve' currencies. ⟶

These include inflation-linked US government bonds, the sovereign debt of Singapore, Japanese government bonds and the Swiss franc.

The full impact of this pandemic, on households and businesses, will reveal itself slowly and fitfully over the coming years. The sheer amount of public cash that has been poured over economies has helped tide over many companies. In the UK, most of the high street was given up to £25,000 by the government, no questions asked, under the Retail, Hospitality and Leisure Grant. Added to that, their business rates have been waived for the whole 2020/21 year. These are just two parts of an extraordinary amount of government help for businesses, to give you a flavour. Yet aside from the furlough scheme and a moratorium on rental evictions (which expired in August), the help for British unemployed is, by comparison, miserly. With unemployment set to rise in coming months, political pressure could build to make the UK's safety net more generous. That would mean yet more borrowing.

The US has been much more generous to its unemployed along with extending plenty of help to businesses. This created the bizarre situation where Americans' income actually soared during a time of skyrocketing unemployment and widespread shutdowns. Yet that scheme ran into congressional acrimony and had to be bailed out in a lesser form by presidential executive order. In Europe, nations are still grappling with the need for tourism cash to pay the bills, even though success in attracting visitors just increases the chances of another outbreak.

At the end of the day many businesses around the world are surviving on grants of cash and interest-free loans from governments. Yet, these cash spigots will be turned off at some point. When that happens, some businesses will find they simply cannot go on. That moment could arrive when interest becomes payable on government loans. Or when tax bills finally come due. An earlier crunch point could be the Christmas shopping period. Traditionally harvest time for retailers and restaurants everywhere – work parties, family outings, gift-giving – a depressed season could break the spirit of some business owners, large and small. Bondholders of larger, vulnerable companies could get nervous too, especially with corporate bonds getting steadily more expensive in recent months.

Governments must drag our economies up by their bootstraps until private sectors regain their vitality, while central bankers will have to ensure they retain their credibility in a time of unprecedented intervention. Welcome to the new Keynesian world.

The key risk now is persistent unemployment. Furlough schemes have kept a lid on joblessness in the UK and in most of Europe, in the US it spiked as a matter of policy – the government extended extraordinary unemployment benefits in lieu of a furlough scheme. We will be watching the path of these numbers very carefully over the coming months. One worrying point to note is that, as lockdowns ended and government support cheques shrank considerably, more than half of the 17.8 million unemployed in America didn't expect to get their old job back.

Governments must drag our economies up by their bootstraps until private sectors regain their vitality, while central bankers will have to ensure they retain their credibility in a time of unprecedented intervention. Welcome to the new Keynesian world.


Product performance
RATE OF INFLATION
PRODUCTS
INTERACTION
PERFORMANCE
INCOME
OBJECTIVES

At the crossroads of a new era

The world seems to have simultaneously sped up and slowed down. The pandemic is an almighty shock to how we live, how we work and how governments operate.

Inertia is a powerful force. It's the reason why many of our habits haven't evolved as fast as the technology that has built up around us. Yet the pandemic pushed pause on our lives, ending business as usual and forcing us all to rethink everything we're doing. Like a boulder that rolls into a river and changes its course.

How will we all adapt and react to this storm of new risks, opportunities and changes? That's the crux of the whole thing. Public debt is through the roof, as is income inequality as half the world works remotely and another half finds itself stuck in stasis. COVID-19 is certainly not the great leveller. As for private debt, the ability to suspend mortgage payments on request would have been unthinkable in previous crises, yet today it has helped millions avoid foreclosure. Although it will mean greater repayments down the road. ⟶

Are more people going to squirrel away more cash in the future to protect themselves if they lose their job? Many commentators argue that savings ratios will rise over the coming years as the fear of another disease-fuelled economic catastrophe lingers. Yet is that really the lesson people will learn from this? Or is this a sort of household moral hazard to go with that of bankers during the last crisis? Will they simply assume that the government will protect them once again when the next apocalypse comes? The answer to this question is extremely important for economic demand and the new Keynesian age. It will probably depend on the path of unemployment. We'll find out in time.

In the here and now, one recurring drumbeat throughout lockdown and tentative re-openings has been technology as a solution. People were already dispensing with cash and shunning the high street, yet the pandemic has made card payments and e-commerce platforms essential for all businesses. Companies that invested in IT had a head-start, while laggards have had to pedal hard to catch up. Some have not been able to pedal hard enough. People's greater focus on health and fitness, no doubt a consequence of ubiquitous social media, was already a trend before lockdown. Yet COVID-19 has rammed home the importance of staying in shape and looking after yourself. Many populations were already growing older, creating looming healthcare needs that threatened to overwhelm our hospitals and GPs in the coming decades. The pandemic brought that future into the present, focusing many minds on the need for more investment, smarter methods and better technologies to care for our sick and infirm.

Of course, not everything will be different after the pandemic. Much of what we do will continue as it has. The point is, this event has provided an opportunity for intense reappraisal that wouldn't have come otherwise. Minute things, like how much you spend on lunch each day and the reprieve from frequent train cancellations or gridlocked motorways. Big things, like where you really want to live and the long-term viability of your profession. All these decisions, large and small, made by people all over the world add up to the greatest period of flux since the Second World War.

Yet we're still confident that we'll come out the other side looking better than we do today. Humanity's stock of knowledge, in terms of virology, economics, clean energy and technology of all stripes, grows rapidly every day. We sometimes forget the leaps and bounds we've already made. Today's world looks like a basket case, but you'd expect that in the middle of an economic crisis and public health emergency. Even before the pandemic hit, there seemed to be a constant flow of bad news. It pushes you toward negativity and nihilism, yet there is so much more out there that should make you optimistic, to get you excited about the future.

It won't be easy – nothing worthwhile ever is. But if we make the most of our knowledge, look after each other and take advantage of all the opportunities that come our way we should do alright.

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Get in touch

For more information, contact our International Intermediaries team on **020 7399 0800** or visit **rathbones-international.com**

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@Rathbones1742

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