



Research, research, research...

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At Columbia Threadneedle Investments, our team of 180 analysts and research associates is dedicated to original, independent research. Working collaboratively across all major asset classes, our teams utilise big data and analytics, such as machine learning and augmented intelligence, to turn information into forward-looking insights that add real value to investment decisions, pursuing consistent and replicable outcomes for our clients.

In response to the evolving Covid-19 pandemic, we are focusing our research efforts on four broad areas: 1) impact on healthcare; 2) economic impact; 3) market impact; and 4) long-term implications.

Impact on healthcare

The first step is to understand the spread of the virus and disease. We are not medical professionals, but our research experts understand data and statistics. They are analysing the spread of Covid-19 – the success or failure of containment policies – and studying attempts to “normalise” economic activity as infection rates ease. They are also evaluating the recovery rates and mortality rates – here the demographic profile of mortality is key. If the distribution of mortality changed materially to affect the active labour force, the impact of longer-term aggregate global

economic recovery and growth could be damaging, and forecasts would need to change. However, even if current mortality trends persist, there may be behavioural changes that impact how consumers spend or save and how firms organise supply chains.

While we wait for news on anti-viral treatments (even if successful the vaccine may not be ready until Q3, 2021), we are busy exploring related areas. These include the IL-6 treatments for lung issues – which bring potentially lower mortality rates and shorter use of ventilators – as well as assessing the implications of the delay in treatments for other medical conditions.

Our working assumption is that recovery will be activated by a series of dials, not a single switch. Recovery will also come at different rates by region and industry.

Economic impact

The Covid-19 impact on healthcare is directly linked to what happens in the global economy. As official measures of the economic impact are released, we will see a significant contraction in activity worldwide as a result of the shutdown.

In terms of data, the impact of the economic freeze is seen first on jobs; unemployment will rise dramatically, with the peak expected in the second quarter numbers. GDP contraction will follow – for example, the recent eurozone PMI was very weak (less than 30) and led lower by an especially low return from Italy (20.2 composite). These numbers seem consistent with a 10% contraction in eurozone growth.

While normal economic metrics help us quantify what *has* happened, they are not as useful in helping us consider what *will* happen. Consequently, we have switched our focus to different economic indicators. These include levels of pollution, traffic and mobile phone movement that imply, when cross referenced, if movement is picking up – which may be a leading indicator for economic activity. Regarding movement of people, we are focusing more on weekend movement (which may be voluntary) as a measure of sustainability, rather than Monday to Friday movement (this may be more employer-induced).

In order to provide for debate and collaboration, it is necessary to create a consistent set of definitions. We have defined arbitrary economic recovery “shapes” in order to provide consistency to our research.

V, U or L are defined as the potential paths taken to return to Q4, 2019 levels:

- V-shaped recovery in six quarters (Q4, 2021)
- U-shaped recovery in 10 quarters (Q4, 2022)
- L-shaped recovery beyond 2022.

Our current base case is a variation on a U-shaped recovery. The total length of time to recover to Q4, 2019 levels is as described above, but the recovery path is complicated by a second and third wave of infection within the recovery period. We expect the healthcare response and economic impact to be better and less severe respectively in each recurrence, based on the input of our healthcare research team. Our base case also assumes the continuation and, in some instances, the expansion of central bank and fiscal intervention. These measures are the essential bridge over the deep economic valley we are experiencing.

A critical additional input to our economic forecasts will be the feedback we receive from the thousands of companies we research globally. This bottom-up input will be critical to cross reference with top-down assumptions.

Ultimately, the duration and intensity of this unprecedented economic shock depends on the duration of the shutdown.

Market impact

Our asset class experts and global research teams are building scenarios based on the economic base case and a more severe bear case for corporate cash flow (the air that keeps companies alive now); balance sheet (the water that keeps them alive medium term); and growth (the food that helps them and the overall economy grow and remain healthy).

Long-term implications

We need to understand the behavioural and policy changes the pandemic and economic shock will bring about. Therefore, we have created a team to consider the longer-term implications outside the frenzy of the current environment.

Source for all data and information is Bloomberg, unless otherwise stated.
Data as at 17 April 2020.



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