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Silver linings

Could COVID-19 lead to a more ethical and equal world?

Despite its devastating effects, could COVID-19 be a catalyst for a better world? UBS's Michaela Seimen Howat, a sustainable and impact investing strategist, and European economist Dean Turner, discuss the opportunities for female investors and entrepreneurs in a post-pandemic planet.

Michaela: Dean, how is the COVID-19 crisis harming economies – and what should investors and entrepreneurs consider?

Dean: Government actions worldwide to slow the spread of the virus, and ongoing fear of the virus, are slowing the global economy. These aspects will also determine how quickly economies will recover. Policymakers have done all they can to lessen the blow, by easing monetary and fiscal policies at an unprecedented speed and magnitude. However, this alone will not prevent a large hit to the global economy this year.

In the coming weeks and months, the key areas to watch will be the pace in which governments ease restrictions, and how households and firms react to the easing. In our view, most governments will ease the most stringent restrictions in May, but some will remain for many months to come. It's also likely to take time for firms and households to adjust to the post-COVID-19 world. At UBS, we consider it reasonable to expect that activity can return to around 80% of its pre-crisis levels by November.

Investors and entrepreneurs should continue to expect higher than normal volatility as the world emerges from the crisis. So diversifying investments to spread and reduce risk remains key. But there will be opportunities after the pandemic. In our view, the crisis has accelerated trends that were already unfolding: a less physically connected and increasingly digital world that offers opportunities for investors and entrepreneurs.

Michaela: What about the impact on women? Are they more likely to lose their jobs? And how might the pandemic affect female entrepreneurs looking for funding?

Dean: A report from the United Nations last month highlighted that the crisis is particularly affecting women who are generally earning less, saving less, or working in less secure jobs. The disease is causing more fatalities in men than women. However, the shift in health resources to cope with the virus will affect other health issues, where women will be at least as affected as men.

Then there's the issue of unpaid care work, for example, when children are out of school. Women are more likely to care for children, which will harm their ability to work and run businesses.

Perhaps there's less of a concern about funding because governments have mandated the banks to ensure credit flows into their economies. However, this will not offset the historic bias that's typically seen less business funding going to women.

Michaela: We know that more of our clients, and particularly women, are increasingly focused on and concerned about the health of themselves and their families. What's the status of healthcare in various countries, and how do people access it? Might investors consider investing in the sector?

Dean: Healthcare in different countries varies, and no model is the same. At one extreme, we have the UK, with its National Health Service (NHS), which is free for everyone at the point of access. At the other extreme is the US, where healthcare is mainly a private sector initiative. Interestingly, in the US, spending on health as a share of the economy is larger than most European countries. This raises some questions about its effectiveness and efficiency.

Healthcare is a growing industry, driven by population growth and aging. In our view, two areas warrant attention from investors and entrepreneurs. The first is the 'health-tech' sector. One healthtech example that emerged in the crisis is 'telemedicine'. It has enabled people to access routine medical care on digital devices, without risking exposure to the virus or burdening healthcare systems.

Since the outbreak began, one leading online medical consultation platform saw a 1000% rise in monthly active users. Virtual care provider Teladoc reported an unprecedented 50% rise in daily visit volumes in the US for the second week of March.

Telemedicine might also lower the cost of care by shifting treatment away from expensive hospital locations, and providing access to underserved communities. While such services are still in the early stages, we may see more people adopting them after the virus has been contained.

The other big area is genetic therapies. Genetic therapies will probably not provide a cure for viral diseases like COVID-19. But they could significantly help healthcare systems improve their services. This is likely to come into sharp focus after the crisis. Unlike traditional drugs, genetic therapies aim to cure diseases by modifying or removing faulty human genetic information. They're effectively removing the cause of illness. This represents a huge shift in health systems, where services usually slow disease progression, relieve symptoms, and involve long and costly care.

Michaela: In recent weeks, climate change, pollution and waste have moved into focus. Everyone seems to realize that the environment relates closely to the current crisis. Do you think that focusing on climate change will help or hinder an economic recovery?

Dean: All these topics are fundamental to the global economy's long-term outlook. At UBS, we prefer to look at climate change through the lens of environmental action.

A sense of environmental crisis now exists in households and businesses. In the decade ahead, we believe this sense of crisis will spur action. We expect consumers to increasingly opt for more sustainable products and services. Green parties could earn a higher share of the vote and influence government policies. And technological advances are helping clean energy compete with fossil fuels.

Investors should position for this trend. But we're far from certain that a commitment to sustainability will avert further environmental problems. So investors may need to carefully consider environmental risks in their investment choices. Such considerations are particularly relevant when investing in long-term physical assets like real estate, utilities and infrastructure.

Dean: Michaela, how can investors address issues through sustainable investing?

Michaela: It has been widely reported that 2020 carbon emissions for countries and most corporations will decrease due to the economic lockdown. So far, we've seen the largest decline of global carbon emissions on record. There are also direct links between the environment and the health crisis. For example, preliminary World Health Organization studies have identified links between high air pollution and more severe cases of COVID-19.

We expect environmental themes to continue providing attractive longer-term sustainable investment opportunities. These are some of the themes we believe will interest sustainable investors after the pandemic:

- **Renewable energy.** Growth in renewable energy-related industries gives countries significant opportunities to create jobs and rely more on their own energy resources (energy independence).

- **Sustainable transport.** The lockdown has heightened awareness of our ability to travel, and the safety and sustainability of public transport. The market for electrification of powertrains and cars, and small-scale car sharing will be around $400 billion.

- **Biodiversity.** Biodiversity (life on Earth, in all its forms and interactions) is critical to food production, agriculture, medicine, and other important aspects of our lives and economies. But it tends to receive less attention from investors than climate change or water. We think this will change, in light of the original source of COVID-19. For over a decade, the scientific community has been discussing increased transmission of infectious disease from animals to humans. It's more difficult to identify industries that explicitly and positively impact biodiversity than it is to find industries focused on areas like reducing carbon emissions. So the focus may be more on investing in companies that lead the way in reducing their harm to biodiversity.

- **Green bonds.** Green bonds, which are issued by corporates and governments, cover some of the topics I described. At UBS, they are already a core component of our sustainable investment portfolio approach. We also expect they will continue playing a key role in fixed-income investments with sustainability themes.

Dean: How can female investors help the United Nations achieve Sustainable Development Goal number five – gender equality?

Michaela: There are compelling reasons to invest in listed equities that account for a wider range of diversity (equal representation) and equality (equal opportunity and reward) indicators.

Corporations are increasingly transparent about their gender diversity, and data is more available to investors. We have found that companies where women occupy at least 20% of leadership positions were more profitable across various metrics than their less gender-diverse peers. We see gender diversity as a big indicator of well-run companies. For example, diverse corporate boards display wider skills, better monitoring, and more strategic decision-making, leading to reduced losses and increased profits.

At UBS, for over five years, we have focused on financial education for women. We believe it's important for women to continue to own, control and earn wealth in the world.

Here in the UK, "The Alison Rose Review of Female Entrepreneurship" received some great attention. One focus is to encourage venture capital and private equity houses to increasingly invest in female-led start-ups. Additionally, more women should be involved in deciding on which businesses to invest in.

Dean: Could you explain a little more about why the United Nation's Sustainable Development Goals (SDGs) are so important, and how they can guide people's investment choices?

Michaela: With great pressure and capital required to achieve the goals, investments in SDG-related industries have been increasing. We expect this trend to continue, giving listed companies in relevant industries additional opportunities to grow. Estimates of the funding required to achieve the goals globally vary widely, but are in the trillions of dollars. The public sector alone cannot meet this need, and governments are not legally obliged to hit the targets. But there is a mutual understanding that reaching the goals is necessary to safeguard humanity's future.

Since the United Nations launched the goals in 2015, regulators and investors have been working on ways to channel private wealth into projects and enterprises that will solve global challenges. The structure and the will – from governments, the private sector, and civil society alike – are finally in place.

Five big takeaways

1. **Spreading the risk.** Investments may be more volatile, even while the pandemic passes. So diverse investment portfolios that spread and reduce risk are still as important as ever.

2. **Just what the doctor ordered.** Two 'healthtech' examples to look out for are 'telemedicine' (accessing medical services on digital devices) and 'genetic therapies' (therapies that aim to cure diseases by modifying or removing faulty human genetic information).

3. **All eyes on the environment.** People increasingly sense that the environment is in crisis. Consumers are likely to choose more sustainable products and services. Green parties may gain more political influence. And clean energy technologies will continue advancing.

4. **How clean is your portfolio?** Have you considered how your investments might be affecting the environment? This can be especially relevant when investing in physical assets like real estate, utilities and infrastructure.

5. **Bringing diversity to the table.** There are good reasons to invest in organizations that lead on diversity and equality. For example, there's evidence that companies where at least 20% of its leaders are female are more profitable in some areas than their less gender-diverse peers.

What do you think?
How do you think COVID-19 will change the world? How might it affect the way you invest or run your business? What opportunities could emerge from the crisis? We'd love to hear from you!

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