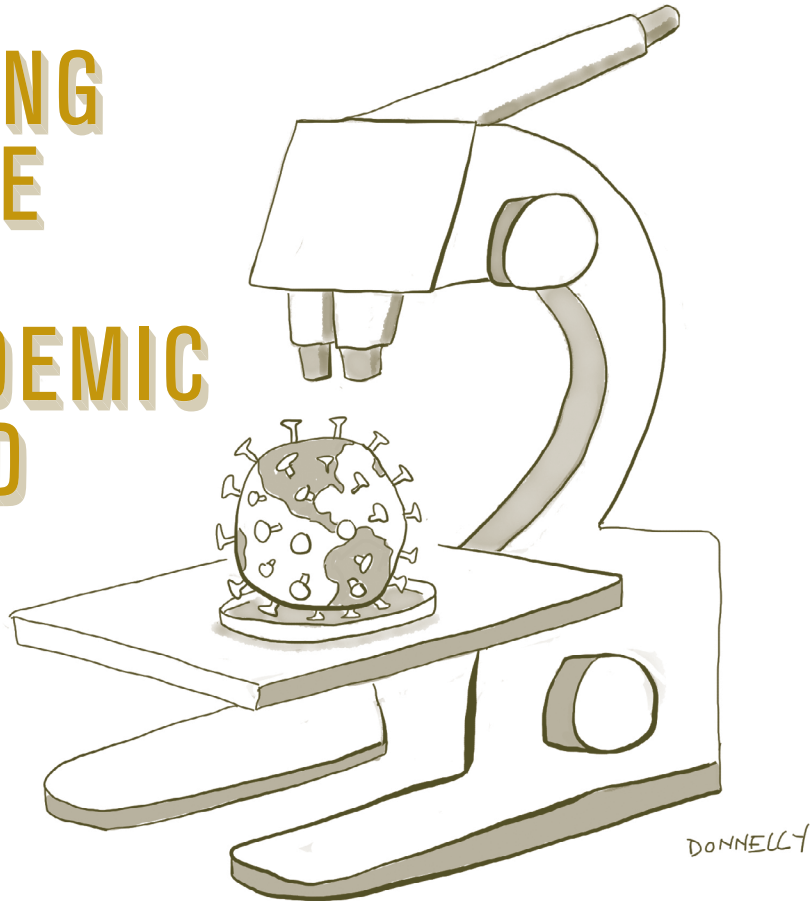


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ASSESSING CHANGE *IN A* POST-PANDEMIC WORLD



The world will look different once it emerges from the coronavirus pandemic—and that will have important consequences for investors across all sectors of the market. Those differences are now being debated and, in some cases, depend on the course we follow in getting to the other side of the outbreak. With the full impact of the pandemic still unfolding, now is the time for investors to carefully observe what is already changing, and to build a mental map for navigating the changes to come. Members of RMB’s Research Core, our team of internal equity research sector specialists, discuss some of the changes already unfolding, the likely permanence of these changes, and key questions yet to be answered across several key sectors of the market: Technology, Health Care, and Consumer. »

Technology

In the Technology sector, stay-at-home mandates have pushed businesses and consumers alike to adopt technology offerings in just weeks that otherwise might have taken years to catch on to the same degree. The software and hardware infrastructure needed to reliably enable videoconferencing, secure remote devices like laptops and mobile phones, and deliver other work-from-home capabilities will likely see a permanent step up in importance as companies accommodate a workforce now more familiar with remote work. Video gaming companies will see a lasting benefit as new game consumers who experimented during a lockdown become more serious gamers. Cloud gaming platforms such as Google's Stadia or Microsoft's upcoming xCloud, which offer a lower-priced gaming experience, could see particular traction with these consumers who, while converted, may still hesitate to buy a traditional \$300 gaming console or a \$60 game.

Meanwhile, several ongoing secular technology trends will press forward unimpeded—or even be accelerated—by the coronavirus crisis. The migration of corporate computing infrastructure from company-owned data centers to third-party operation by major public cloud providers such as Amazon Web Services will continue to unfold, with beneficiaries including the cloud platform providers themselves as well as the many companies providing cloud-based enterprise software to run on these platforms. Likewise, the buildout of 5G wireless networks and the range of services that they enable will benefit providers of the network equipment, semiconductors, and software needed to create and manage these networks.

In other areas of Technology, the path forward appears less certain. The digital advertising revolution has created modern technology giants—Facebook and Google in particular—but relies heavily on industries such as automobiles and quick-service restaurants, some of which may see advertising budgets permanently reduced. Other services, such as digital music and podcasts, may see consumption headwinds due to changing life routines, like a shift from commuting to remote work. In general, the existential threat posed to small and medium-sized

businesses by the pandemic's severe economic shock poses a significant challenge for technology providers that target this market segment.

Health Care

Within the Health Care sector, the initial impact of the coronavirus outbreak and related social distancing has brought an increase in the use of telehealth services, many fewer office visits across health, dental, and veterinary practices, delaying of elective surgical procedures, and even a reduction in biopharmaceutical clinical trial enrollment. How long these conditions persist depends partly on the success of slowing the spread of infection so the health care system is not overwhelmed and can resume functioning normally. Here, key milestones include having accessible testing to screen for COVID-19 (both polymerase chain reaction (PCR) tests to determine who currently has the infection and serologic tests to determine who has been infected and should now be immune), achieving herd immunity (generally considered 70–90% immunity among a population, driven by serologic testing), and eventually developing a therapeutic vaccine.

Even after the pandemic is contained, we anticipate continued adoption of telehealth services, a strong focus on diagnostic testing, a recovery in elective procedures, and continued acceleration of R&D investments by the pharmaceutical and biotechnology industries. High-quality participants in a variety of secular themes will be the likely beneficiaries. These include participants in the personalized medicine value chain, enablers of minimally invasive surgical procedures, those boosting health care provider productivity, and diagnostic testing providers.

Exactly how consumers and Health Care companies move forward from the coronavirus public health crisis is difficult to predict. For example, will the shift toward elective procedures being performed at outpatient facilities rather than hospitals accelerate? It is common in the industry for hospitals to have relatively high financial leverage, so any changes to profitability can be magnified. Will medical and dental patients reschedule annual or semiannual checkups that were missed or simply defer »

for a year? Will companies reconfigure China-based supply chains for active pharmaceutical ingredients back to domestic supply sources? These considerations will have bearing on the financial future of many companies in the sector.

Consumer

While the long-term psychological impact to consumers from shelter-in-place orders remains to be seen, in the near term there will be significant winners and losers across consumer-related industries. With very few exceptions, all “non-essential” retail was shut down across the country—shopping malls, movie theaters, fitness centers, bars and restaurants, cruise lines, ski resorts, amusement parks, and casinos. Many remain closed, and for businesses without e-commerce capabilities, this means zero revenue for an indefinite period. Larger, well-financed companies with greater access to capital can likely survive six to 12 months with little revenue. But a significant number of the many thousands of small independent businesses may never reopen for business.

Traditional enclosed malls with anchor tenants such as J.C. Penney, Sears, and Macy’s were barely surviving before the pandemic, hurt by the shift to e-commerce long since underway. Now the three largest retailers in the United States—Amazon, Walmart, and Costco—seem likely to extend their dominance. More recent consumer trends that are poised to accelerate include

food delivery, e-learning, at-home connected fitness, and the consumption of streaming video services. How embedded these trends become depends in part on how long consumers are asked to stay at home and not socialize, as well as how people behave as lockdowns are lifted. While it may seem unthinkable at this point to visit a packed Disney World or to attend a college football game, American consumers have historically valued such experiences while socializing with friends and family. How short will our memory be of this crisis? Could we be moving toward a world where sports are played in near-empty stadiums, packed theme parks are a thing of the past, or college campuses are half occupied as students opt for online classes? Answers to these questions will have much to say about winners and losers in the Consumer sector and beyond.

Conclusion

There is limited historical precedent about the path the global economy, the financial markets, and our society will follow from here. Given this, investors are well served by taking inventory of what has changed, thinking critically about which of those changes are likely to persist as the crisis subsides, and incorporating new information as it is learned. Persistent change will reinforce the position of some market leaders while dislodging others—and is often underestimated by the financial markets over the long term. At RMB, we are firmly focused on identifying and capitalizing on these long-term opportunities for our clients. ■

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