

MARKET SPOTLIGHT - JUNE 2021

Getting back out there after COVID

We may finally be seeing light at the end of the dark, year-long COVID tunnel. With decent vaccination rates and new cases falling quickly in many developed nations, warmer weather is also making it easier for some business operations to resume. We're not just picking up where we left off in March 2020, however—the world looks different after a year of social distancing, working from home and connecting virtually. Permanent changes will probably only be obvious with hindsight, but for the moment some things have clearly evolved as we step back out into the world.

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The post-COVID world

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Over the past year, we've seen a lot of changes in financial markets and in our daily lives as a result of the COVID pandemic. I think many of us are surprised it lasted as long as it did and as a society, we're still battling our way through this.

Government stimulus remains in place and is still quite strong. With an exceptionally low interest-rate environment, companies and individuals can borrow at very attractive rates, which provides stimulus to the economy and typically leads to spending.

The consumer is in good shape

Consumers will likely drive this recovery. They've saved substantially during 2020 and many of us know from our own experience that we have pent-up spending urges. We can't wait to get back to going on vacation, going to restaurants, getting back out there and that will mean spending money that will fuel the economy. I believe this is an incredibly powerful trend that will unfold in the latter half of 2021 and into 2022.

Businesses forced to adapt

We've seen many companies redefine how they do business, how they approach their market, how they reach out to consumers, and how they work with their employees. Many employees are working from home. We recently met with one company that had a great way of describing this. They said, "Look, if we had studied and talked about can we have our whole workforce work from home, it would have cost us hundreds of millions of dollars to do the study, and we would have come back with the conclusion that it can't be done yet. Yet the pandemic forced us into that reality."

Companies have had to find ways to be innovative, creative, and work around the old structure. Some of that was internal processes and some of it was a cultural mind shift about work from home. But the whole work-from-home experience will drive business efficiencies and translate into stronger markets.

We've also seen companies reassess how they approach customers and online sales have accelerated as a result. A number tell us now that their online sales penetration is probably where they thought it would be five years from now.

Rethinking business structure

We're also seeing mergers and acquisitions (M&A). Companies today have the lowest cost of capital they've ever experienced, with stocks at record highs and interest rates near record lows. Access to capital and the cost of that capital has never been more attractive. That's reflected in M&A action, where companies are asking: can we do an acquisition here with low-cost funding and gain bigger market share? I think we're going to see more M&A.

One example of an area that's evolving its business to take advantage of the reopening is real estate REITs. Consider RioCan, that's changing its business mix. It's selling or redeveloping its properties and moving them from predominantly retail to mixed retail and housing (apartments and condos). Not only does it have very attractively located properties, it's the most advanced of all the REITs in the rezoning process and making changes to its business. We believe this puts it in a favourable position to meet future challenges in its industry.



Is COVID here to stay?

Michal Marszal

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As we near the end of the third COVID wave in the Northern Hemisphere, many are asking if this threat is really behind us. Will we see a resurgence in the fall and are we still vulnerable to attack from a COVID variant?

The debate around herd immunity

As far as a resurgence is concerned, this will depend on the existing level of immunity in the population. To some extent, the progress of vaccinations tells the story. In Canada and the U.S., we're already approaching the 50-60% vaccinated threshold and the EU is close behind. We can probably expect 60-70% by the end of summer and a gradual increase from there—this level is considered relatively high. With the assumption that some of the remaining 30% will have developed a certain level of immunity from prior COVID exposure, we're looking at about 80%+ immunity—often considered the level of herd immunity.

Vaccine protection

How long will protection last with existing vaccines?

Let's first talk about the original COVID variant. Current data indicates that the (mRNA) vaccination or COVID exposure itself provides an effective immune response for a year or two. The "memory" component of the immune response could potentially provide protection for several years. This is good news.

Now consider, what are the chances a COVID mutation allows it to evade the vaccines?

Some mutations, even those that make COVID more transmissible, are not really a threat if the immune response can combat and overcome the variant. But a virus variant that can evade the immune response does pose a problem.

We've seen some variants where the existing vaccines are much less effective, and this is a concern. Vaccines are currently in development that target the most problematic variants and those should be available by late summer 2021. At that point and going forward, they could be used as booster shots. For the existing vaccines, we're talking about a drop from 90% efficacy to 50% efficacy with the variants, not ideal but still a good degree of protection.

Overall, assuming we do achieve some level of herd immunity in most developed nations, we'll have a very high level of protection against the original strains. We'll also have good protection against the variants with the most commonly identified "problematic" strains.

Although this is an optimistic scenario, current evidence does seem to indicate that this is what's playing out right now.

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