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The Covid industrial revolution: end of the line for globalisation

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Pimco: “Businesses will reduce complexity and risks”. Trade and tourism will be the first. Banor: “There will be few dominant companies”

Martin Moeller, co-Head of Swiss & Global Equity at Union Bancaire Privée (UBP)

Goodbye globalisation? The warning – in the wake of the devastating impact of Covid-19 – was raised by Pimco, one of the leading investment management companies in the world, according to whom the post-virus world will leave a long term scar called deglobalisation: “Businesses", explained Pimco’s Economic Consultant Joachim Fels, "may want to reduce the complexity and risks of global production chains and governments may want to limit trade, travel and migration due to concern for public health. The economic model of companies, sectors and countries that depend heavily on trade and tourism could suffer significant and lasting consequences".

A return to the past that, according to Martin Moeller, co-Head of Swiss & Global Equity at Union Bancaire Privée (UBP), “is emerging forcefully”. And that for Francesco Castelli, Fixed Income Manager at Banor Capital “will prove to be a tough test for many production chains and will favour a process that has been underway for some years, and that is the regionalisation of economies”. Supply chains have been broken, demand for many goods and services has been limited by government intervention and in many areas it has even collapsed.

Francesco Castelli, Head of Fixed Income at Banor Capital

“Trade and tourism are the areas that are currently suffering the most due to the sudden shock. Once the health crisis has peaked, many of these interruptions will sooner or later be restored, but some changes could continue in the long term” explained Moeller.

The future scenario for the travel and tourism sector is particularly negative. “In the long term", – added Moeller, "this will have a significant impact on some of the most profitable areas of the travel sector (business travel) that will be significantly replaced by video conferencing. We expect that airline companies, hotels, retailers and cruise companies will operate in difficult conditions even after the health crisis has peaked".

A path that will not be linear. According to Banor Capital "first of all, the pandemic has reduced freight costs, just look at the price of oil. Secondly, it is becoming evident that Asian Countries, traditional exporters of goods, have managed the pandemic in a much more efficient manner than Europe and the US, traditional importers. The shortening of the supply chain requires huge local investment, in some cases to reconstruct sectors of the economy that had been closed for years, and it leaves importers more exposed to risk given that their supplies depend on only one country. What we see clearly is the consolidation of dominant positions: in many sectors, leadership is in the hands of a few well-capitalised companies, with sufficient resources to survive the crisis". Looking at the sectors that will benefit from this industrial trend reversal there will be IT and MedTech. "Countries", added Moeller, "will build reserves and they will review their supply chains for drugs. We expect that Europe will start to produce more drugs and APIs (Active Pharmaceutical Ingredients) domestically and will import less from China and India. This could benefit some European producers like Switzerland-based Lonza".

In conclusion, therefore "perhaps shareholders will lose their dividends for one or two years, but after the crisis they will find themselves starting out stronger than before and with fewer competitors, due to the inevitable bankruptcies", affirmed Banor Capital. A sort of industrial natural selection where only those who are capable of adapting rapidly to the changes taking place will be able to compete and remain on the market.