Envisioning a post-pandemic future

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The American mathematician Claude Shannon famously established a lower bound for the number of possible moves in a typical chess match: around 10^{120}. That's 10 with 119 zeroes after it. Reflecting on when the COVID-19 crisis began to unfold across the globe, I think the Shannon number adequately captures the breadth of possible economic outcomes at the time.

As the crisis has evolved, however, two things have become clear: the pandemic has accelerated some trends already in place, and COVID-19 will have implications that are opaque now but that will become undeniably clear and meaningful over time.

The future accelerated

Before the pandemic sent office staff flocking to home workstations, employers were taking an incremental approach to remote work. Recent improvements in office technologies let them untether workforces on a timetable of their choosing. The pandemic took the decision out of employers' hands.

Similar to how issuers can recall certain bonds when conditions allow them to reissue on more favorable terms, the pandemic functioned as a call option on employers' incrementalism. No longer could work-from-home arrangements serve as controlled experiments in productivity; they became indispensable. Ready or not, employers for the most part have successfully enabled secure and efficient work from home and redefined team dynamics. The office will never be the same. Meanwhile, significantly reduced demand for office square footage, which had grown on a per capita basis for 50 years, stands to redefine our cityscapes and suburban makeups.

Similarly, the pandemic has ground business travel to a halt. Historically the most profitable business for airlines and hotels, such travel has been replaced by video conferences and virtual collaboration tools. Such a development tests airline and hotel business models that rely on less-price-sensitive business travelers to help keep leisure travelers' costs low.

COVID-19 has also accelerated the challenges facing restaurants and brick-and-mortar retailers. E-retail and food delivery, already growing in popularity before the pandemic, have become essential to consumers worried about face-to-face interaction. As with office work and air travel, restaurants and retail may not overcome heightened consumer reluctance until an effective vaccine or treatment is developed—something we're not expecting before 2021. In some cases, the damage could be permanent.

Interestingly, changes to commercial real estate, or at least how we invest in it, had already been occurring in plain sight. Over the last decade, office and retail constituents have fallen from 39% to 19% of equity REIT assets, while residenti infrastructure, and data centers—sectors that are likely to benefit from the pandemic—now make up 45%.[1]

Post-pandemic questions

Although some implications of the post-pandemic world are evident, others, for now, are more opaque:

- Will massive stimulus, supply-chain disruptions, and pent-up demand give rise to inflation that has eluded developed economies for a decade?

- Is the globalization trend that has defined the post-World War II era ending, and what would that mean for trade and economic growth?
- With interest rates pinned at historic lows and deficits and balance sheets expanding, what can central banks do to support employment and price stability?

And what becomes of inequality, a statistically significant detractor from a nation's economic health that increased after the 2008 global financial crisis?[2] Our current crises (both health and economic) are disproportionately affecting people of certain races and socio-economic groups. Though I'm encouraged by emerging conversations that are both thoughtful and action-oriented, it's not yet clear whether the pandemic will accelerate or reverse the inequality trend.

These questions will demand our attention and continue to act as source material for this blog in the months and years ahead. It is likely that answers to some of these questions will materially affect the trajectory of others. In that sense, the number of possible moves left in our chess match still includes a whole lot of zeroes.

Notes:

- All investing is subject to risk, including the possible loss of the money you invest.

1. Based on the FTSE Nareit All REITs Index. Data from 2010 are as of December 31, 2010, and data from 2020 are as of July 31, 2020. In 2010, residential, infrastructure, and data centers made up 14%, 0%, and 0% of the index, respectively.

2. Cingano, Federico, 2014. Trends in Income Inequality and its Impact on Economic Growth. OECD Social, Employment and Migration Working Papers No. 163. Paris: OECD Publishing available at https://doi.org/10.1787/5jxrjncwxv6j-en.