The 'new normal'

Where are we a year later?

May 2021

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Introduction

Last summer we published a paper titled "The New Normal – What is it and what does it mean for investors?". Almost a year on we reflect on those nascent or developing themes by way of this update.

At the time of writing, there is a sense of optimism in the developed world about being well past the worst on the COVID-19 pandemic. The scientific feat of discovering highly effective vaccines less than a year after the initial pandemic outbreak is outstanding. Their subsequent speedy regulatory approval, rapid procurement from suppliers and roll-out to populations have also been impressive. There is growing confidence that the pandemic is now being beaten back. This is evident in recovering consumer and business confidence, a view that economic re-opening this year will not be jeopardised by new virus waves as we saw last summer, and of course in buoyant markets in risky assets and even that rare event in recent times, a rise in bond yields and interest rate expectations.

Some form of reality check and circumspection is due. It is, of course, not quite so straightforward as that. The pandemic is far from being beaten globally as developments in many emerging economies like India and Brazil amply demonstrate. Even some developed European countries and Japan are some way away from being properly over the worst of the pandemic. It cannot be sustainable that the pandemic rages in many countries and is fully contained in other (mainly richer) countries. Borders can hardly stay closed indefinitely.

Let us, parochially, work with the view as markets seem to be doing now, that the pandemic is being beaten back in the dominant part of the global economy (G7 economies + China accounting for just over 60% of global GDP) and that a large measure of normality returns by 2022. These economies will have already recovered their lost output by then. On current forecasts, the US will be well ahead of its pre-pandemic output levels by then, China even more so. Using such a yardstick, this will have been a shorter pandemic and less severe in its effects than many would have expected a year ago.

How does this better than expected outcome affect the way we look back at the pandemic and its legacy effects ahead? A year ago, when the outbreak of COVID-19 was in full flow, the term 'New Normal' was being widely used to discuss the lasting effects of the pandemic. The most widely discussed New Normal trend was thought to be a permanent increase in the share of employees working from home using digital routes to communicate and transact instead of face to face. We also took the view that the pandemic would leave a New Normal impact. However, our highlighted New Normal effects went far deeper and wider in their effects on economic life than merely a raised propensity to work from home[1].

Our view then was that the legacy effects discussed would be impervious to the pandemic's duration because the disruption to economic functioning would still usher in some quite big and lasting changes. But with optimism growing recently that the pandemic is ending, some have asked us whether the New Normal was just a transient set of ideas, and whether they need jettisoning given the pandemic now appearing to be a short-lived affair. We disagree on several dimensions and we suspect that it is now a more commonly held view that the COVID-19 experience has either heralded or accelerated some important and long-lasting structural changes to economic thinking. This is the reason why we wanted to look back at what was said and update where we are today on those New Normal ideas. This is what we offer here. In what follows below we look at what was said and how those observations and projections have fared in the light of events.

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[1] *The New Normal -What is it and what does it mean for investors? August 2020*

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New Normal trends identified have aged well

A little under a year after our New Normal work was developed, it looks as though most of the legacy effects discussed then have aged well. In the tables below, we look at where and how we have travelled along the New Normal roadmap we tried to identify at the time. As a reminder, we identified eight New Normal trends, five of which we thought to be less controversial and three that were much more uncertain, relying heavily on societal, corporate and governmental responses to the pandemic.

When we now look at the five trends that we regarded as less controversial (e.g. the increased digital penetration and working from home which was the most consensual), there is a deeper embedding of these New Normal trends, although here and there, we do find a few surprises. Where we have been more surprised, however, is by the speed of developments in those very three areas we identified as much more speculative and for which we laid out scenarios reflecting the much higher degree of uncertainty attached. These three trends – a greater focus on inequality with governments adopting a more 'levelling-up' approach, a greater corporate focus on a stakeholder approach (reduction in shareholder primacy), and a more ambitious appetite towards the low carbon transition, show faster progression than we might have expected in such a short time. It is worth cautioning that this short time span could also mean that things revert to the obstacles and political hesitancy of previous years and that this early progress just does not follow through. We shall have to see, but we are struck by how much travelling along the roadmap there has already been in these three New Normal trends in the past year.

There is a linked narrative here through the New Normal scenarios that probably helps account for what has happened. At the time the New Normal work was being developed, there was no assurance that a change in political power in the US would occur. That this happened during 2020 has clearly helped the direction of travel and momentum in these three areas, there can be no denying that. But the way we see it is that there has been much more to it than a change of US President. We argued that in the years leading up to the pandemic, some of the deficiencies of existing structures – the adverse effects of growing income, wealth and health inequalities, the increasingly disruptive effects of climate change and dissatisfaction with the primacy given to shareholder value over wider stakeholder / societal interests had become much more glaring. We thought that the pandemic's role would be to bring all of this into much sharper focus, bringing a wider re-orientation and change of direction that would be quite widespread across society. We saw this as the likely agent of change. This is what seems to be happening, even though it is early days.

Yes, some will see all this in bare political terms as a drift to the left. As we noted at the time, however, it cannot be characterised as simply a matter of left versus right. It is a government of the right in the UK that launched the levelling up agenda, and it is the same government that is now raising corporate taxes and is actively debating higher capital gains and wealth taxes. It might be more accurate to say instead that what is happening globally is a weakening hold of the free market liberal thinking that has for many decades wanted to leave economic life to markets.

This change of view is happening because the pandemic more thoroughly exposed the more extreme longer run deficiencies of this thinking in its effects on economies and in creating societal imbalances. This way of understanding events looks closer to the mark than arguing that it is all about a shift to the left. Even governments of the right have recognised that pre-pandemic economic structures were increasingly fragile and needed changing (the US Trump administration's views being at the further end of that spectrum). Of course, you could also argue that governments are currently just hungry for revenue in the post pandemic world too (another of our New Normal trends!), so higher taxes on corporations and richer households may simply reflect acute revenue hunger rather than changing views on fairness. It is significant, however, that corporate tax rates are now rising globally after four decades of falls. It is also a watershed moment that the IMF, the torchbearer of liberal economic thinking for more than half a century, devoted a full chapter recently on inequality in its latest Fiscal Monitor, recommending more progressive taxation, harmonised corporate taxes to prevent profit shifting and higher taxes on property. To quote the Fund:

> "Policymakers should also be responsive to public sentiment that, as a result of the pandemic, may be shifting toward greater demand for inclusive policies"[2]

[2] *IMF Fiscal Monitor, April 2021*

Investment Implications

How does any of this matter in terms of the market outlook as we look ahead? Do these new normal trends impact the way investors should be positioned today? Several New Normal trends identified last year signalled some caution on risky assets over time, even though it was clear that the underpinning of very low interest rates and large government stimulus provided near-term counterweights. Less travel and more working from home signalled a more subdued outlook for several sectors like real estate, aviation and travel and leisure. On the three more scenario-like changes of deeper New Normal policy shifts, more government involvement in the economy, higher taxes (corporates, higher income, wealth), localisation of supply-chains, more regulation of technology companies and more labour-friendly policies could all drag on markets. Several of these were identified as a drag on corporate profit margins. We all know how the multi-decade rise in US profit margins has been vital in sustaining the long-term bull market in risky assets since the early 1990s, so this is crucial. The faster carbon transition element of the New Normal is more a double-edged market sword: it creates new opportunities, but it also imposes business and household costs and involves considerable disruption.

Running through these New Normal investment impacts, if we have moved further along the roadmap in this direction, as we would argue has been the case, it is likely that risky assets will feel some negative impact, especially as the stimulus effects of ultra-low interest rates and fiscal expansion start to wear off. This potentially brings that time closer when some of the nascent less capital-friendly policies we are seeing will start to pinch risky assets. That time has not been reached yet, but equally, as the political agenda and policies seem to be shifting more in that direction today, it may not be that far off either.

Of course, we did also say that if New Normal changes brought about a changed economic environment that ultimately brought less fragility, there would be a reprieve, because some of the economic shifts might bring about more sustainable economic foundations than currently. Much depended on whether governments used the greater leverage over economies well (and in the example of bailouts, certain companies and sectors), in short, whether the higher taxes and spending successfully built a better and less fragile growth environment, ultimately raising productivity and bringing stronger investment. If this happened, a better market environment for risky assets would come in time, ultimately even allowing interest rates to rise from the low levels which high economic fragility from high debt and the need to insure against market shocks have caused. A year into some of these New Normal shifts, we simply have no idea whether these more positive elements of the current policy shifts occurring will in fact materialise in coming years. We may be able to assess in perhaps five years or so. That is the kind of review timescale we are talking about.

For now, only a year later, it may help to think about the investment impact of these New Normal shifts and where we may be in the impact chain evolving now in three distinct but broad phases. The phases will be elaborated in more detail later.

- **A first phase** in which a recovery from the pandemic, large fiscal stimulus and zero interest rates are the overwhelming drivers of and support to asset prices, with policy announcements on New Normal shifts staying largely ‘offstage’. We are in that period still, but closer to the end point than the beginning.
- **A second phase** when this stimulus wears off and markets go through a period of introspection, retreat or higher volatility as some of the less capital and business-friendly changes we note start to pinch and create more risk aversion. Every New Normal shift does not have a negative effect, but the overall effect in combination makes it more likely. This is especially so given that it comes after a long period of unusually favourable supports to and treatment of profits.

- Beyond this, as a **third** or **later phase**, better economic and market outcomes are certainly possible if things work out well but that could be a while away.

What is the investment message from this on the here and now? That we are running through to the end of the 'pandemic over' relief first phase, cushioned by massive fiscal stimulus from the US and central banks providing plentiful liquidity and near zero interest rates to support asset prices. If the New Normal shifts continue in much the same direction as that seen in the past year, the second phase is probably not too far away at all, which will be less kind to asset prices. From a rational investor's standpoint, market conditions are probably as good as they are going to get before more difficult conditions arrive.

New Normal Change expected (June 2020)	Economic implications	Investment impact	Actions
1. Substantial increase in government spending and involvement in economies	• Could be for the good or bad of the economy depending on the direction and quality of government decision-making. • Likely higher taxation. Corporation taxes more likely to rise (esp. in the US) – lowering profits and capital gains taxes also a target for raising.	• Higher corporate taxes negative for equities and credit on intermediate horizons. • But could be beneficial longer-term depending on direction and quality of government decision-making.	• Prepare for continued higher market volatility but may be suppressed by low interest rates (see next row). • Caution on risky assets on intermediate horizons. • Longer-term outcomes could be very different if better foundations for sustainable growth built.

What has happened since?

- US total government spending as a share of GDP rose from 35% to 46% in 2020 (IMF data) and will probably stay at this much higher level in 2021. Even under optimistic estimates for economic growth and restraints on government spending and deficits, this will not fall all the way back to pre-pandemic levels by 2026 (IMF and Congressional Budget Office estimates). The Biden administration's proposed $2.3 trillion infrastructure programme will likely lift this share of government in the economy further so at best a higher plateau of government spending i compared to pre-pandemic levels is likely. UK government spending charts similarly – highest peacetime share of government spending in GDP by 2026 (OBR).

- Likely higher taxation projection is materialising already – the White House has wanted the US corporation tax rate to rise from 21% to 28%, and higher taxes on households will follow. Much the same is happening in the UK with higher corporation taxes already announced and other taxes to surely follow. For a Conservative government to be following the current 'tax and spend' policies is a remarkable feature of the past year.

- Whether greater government involvement in the economy will be 'good' or 'bad' for the economy depends on how additional government leverage is used over time. A year is too early to tell.

- **Investment impact and Actions**: Equities so far supported by interest rates and policy stimulus as noted last June, but higher corporate taxes, higher income and much higher capital gains taxes on upper ends of the income distribution could be a setback to equities that is yet to come – higher corporate taxes globally are likely. This would reverse a 4 decade fall in corporate taxes. More business regulation and anti-trust (competition) enforcement is also likely which suggests a gradual change to the profits / markets environment becoming harder to sustain gains.

New Normal Change expected (June 2020)	Economic implications	Investment impact	Actions
2. Lower for longer interest rates and reduced central bank independence	• Low interest rates cushion debtors (household, corporate and government). • Protects household net worth through holding up house prices and debt-financed spending. • Inflation returning needs to be looked out for.	• Supportive for equities and bonds near-term. Low rates help to suppress market volatility. • Could be worse later for both if inflation returns. • Financials may carry on underperforming owing to flat yield curve.	• Maintain high hedge ratios • Good idea to keep or add inflation hedges — inflation indexed bonds, gold. • Work on much lower investment returns from fixed income. • Avoid strategies overweighting financials.

What has happened since?

- It looks as though interest rates are to be held at near zero levels for at least another year in the US, but for much longer in the UK / Europe so overall two or more years of zero interest rates are a direct result of the pandemic.

- The vaccine announcements late last year have brought forward economic reopening and recovery projections from what looked likely when the new normal projections were made in June 2020. The complication for the US is that the scale of the spending pledges under a new administration is giving rise to some concerns over economic overheating and fears that the Federal Reserve may be forced to tighten policy sooner.

- However, as noted in the new normal paper from last year, the large rise in government and corporate debt makes it more difficult to raise rates and it is unlikely that interest rates will still rise at all quickly or substantially.

- As noted last June, inflation could help manage the debt issue – central banks and governments tolerating at least some rise in inflation could help. In August 2020, the US Federal Reserve explicitly changed the inflation targeting mechanism in a way which made clear its tolerance of higher than 2% inflation for some time. The US central bank is trying much harder to allow / enable more inflation than in earlier years.

- **Investment Impact and Actions**: On the investment recommendations, yield curves have steepened, resulting from more inflation concern and expectations of a stronger economic recovery given the huge vaccine success. Though the recommendation to keep inflation hedges has worked, yield curve steepening has led to financials outperforming in the past 6 months. That said, it is not clear that central banks will ultimately allow yields to rise very much over time, so that the outlook for beneficiaries of higher interest rates is still cloudy taking a multi-year view.

New Normal Change expected (June 2020)	Economic implications	Investment impact	Actions
3. Greater digital penetration	• Overall economic impact depends on how governments manage growth in digitalisation vis a vis regulating competition, taxation of technology companies and global cooperation to avoid technology wars.	• Less demand for real estate overall, though industrial logistics could partly compensate. • Greater market power of digital services technology and its spinoffs – automation / robotics etc.	• Favour technology / media and digital spinoff sectors, while watching for anti-trust and tax moves on providers. • This combined with business localisation (see below) benefits automation activities e.g. robotics. • More caution on real estate, energy, aviation and cross-border travel and leisure.

What has happened since?

- The leap in more digitalised economic activity is likely to last. A recent global survey (HCL) showed that board level priority being accorded to digital transformation across 10 sectors was 20% higher (37% to 57%) higher than pre-pandemic in the US. For now, this is more sectoral than macroeconomic BUT technology's greater importance as part of the new normal world means long-term economic effects of this change will eventually be large.
- The tasks of regulating technology impacts, coordinating taxation, improving competition and achieving cooperation to avoid global conflicts are still mostly not tackled. Technology's greater reach post pandemic has brought a very large increase in internet fraud and facilitated a leap forward in the use of AI with associated advantages and risks.
- Pandemic effects have reduced demand for real estate. Office demand is looking more likely to be persistently weaker. Real estate will feel the impact in a lasting period of subdued returns relative to pre-pandemic levels even though some areas of demand (logistics demand has benefited from more online activity at large) partly compensate.
- **Investment Impact and Actions**: Cross border leisure travel is picking up, but business travel will likely remain on a lower plateau keeping aviation activity lower in the new normal world. Energy has bounced short-term on a sharp revival in demand, but its performance over a multi-year period is still very much in doubt. Real estate supported by reopening hopes but returns still look likely to be subdued for a few years given the changed work environment. Automation and its spinoffs continue to prosper.

New Normal Change expected (June 2020)	Economic implications	Investment impact	Actions
4. Business localisation, shortening of production and supply chains	• Some business disruption, some cost escalation and lower profit margins as onshoring / reshoring gathers pace. • Global economy stands to lose from onshoring and localisation. • Likely continuation of trade wars and trade policy uncertainty encourages this trend.	• Takes profit margins lower, reducing valuation support for stocks / credit. • On the other hand, supply chains may be less disrupted by severe shocks. • Localisation reduces demand for shipping / freight but more logistics demand which strengthens digitalisation as above. • Less good for emerging markets as room for labour cost arbitrage reduces.	• Avoid complex multinationals instead favouring companies with localised and less complex production and supply chains. • Caution on lower income per head emerging markets exposure. • Negative for equities overall.

What has happened since?

- The pandemic disrupted supply chains and boosted a nascent trend towards altered, more localised and shorter production chains which had started from the gradual rise in geopolitical risk from trade conflicts and creeping protectionism in the 2015-20 period. The Suez incident has further focused attention on the risks of dependence on a few shipping routes. Vaccine nationalism and protectionism is the latest manifestation.
- On a more positive footing, the increased digitalisation of supply chain management has been given a boost by the pandemic and this is enabling companies to make efficiency gains.
- Though these changes may bring more resilience to businesses, there are macroeconomic costs from more onshoring and localisation if trade efficiency gains are lost. Less good for emerging economies overall if reshoring activities increase, but so far there is no large trend back to the US in the past year. The combination of Brexit and the pandemic is encouraging some reshoring in the UK (Alvarez and Marsal report November 2020).
- **Investment Impact and Actions**: Market impact still much too early to observe – it will likely be noticed over time as the long-term rise in profit margins supporting equities ends and potentially even reverses as cost declines turn into cost increases over time.

New Normal Change expected (June 2020)	Economic implications	Investment impact	Actions
5. Intensified China-US conflict	• Rivalry and conflict in trade, technology and territorial / military affairs. • Global trade and investment reorientation, higher geopolitical risks.	• An accelerant to the trend of this rivalry entering market radar for risk assets. • A further factor keeping interest rates lower for longer. • High potential for springing volatility shocks on markets.	• Factor China-US broader geopolitical conflict as a key portfolio risk to consider. • Equity outlook should allow a higher risk premium for these risks. • Holdings with greater exposure to China-US linkages to be treated with care.

What has happened since?

- As we had expected, it is now clear that the China-US conflict was far from just a Trump administration construct. Though some of the sharpness of the rhetoric has reduced, the conflicts are still very much intact or stronger as clear from the abject failure of the Alaska talks in March. The pandemic gave a raised profile to technologies in many areas of business and international security and this means that technology is increasingly the focus of US-China conflict rather than trade, even though higher US tariffs on Chinese goods imposed by the previous administration have not been reversed.
- Technology conflicts may be intensifying, as the Biden team has recently delisted seven Chinese business groups it accuses of building supercomputers to help the Chinese military. Recently, Microsoft gave evidence to the Biden administration of a Chinese state sponsored group that had hacked the company's email software.
- Territorial conflicts, particularly over Hong Kong and Taiwan are if anything sharper, and the US stance on China's human rights record is more confrontational than that of the previous White House team.
- **Investment Impact and Actions**: This intensifying cold war with China undermines some of the mutual gains from US-China trade and investment relationships and continues to carry potential to spring market shocks. That the US and China appear to agree on climate change is a reassuring counter to gloom, but adverse developments in the relationship can upend even this limited progress and understanding.

Structural New Normal 'Scenarios'

> These are more variable and uncertain but potentially have far-reaching and more long-lasting effects on economies and markets. Whether they happen and how events play out depend on several 'if's which are largely to do with how governments, policy-makers and consumers react and behave **(June 2020)**

As scenarios, they will take time to evolve and take shape, assuming they happen at all. A year is too early to assess likelihoods let alone effects, but some policy shifts, statements and milestones set in the past year are important to note.

Will the State look to reduce social, economic and health inequality in a 'levelling up' approach?

- Stronger economic, social and health safety nets brought in through a Universal Basic Income (UBI) or other forms.
- Higher general taxes to address needs of public services with higher corporation taxes et al.
- State targets productivity improvement through social and economic infrastructure improvement.

What has happened since?

- In the US, the Biden administration's agenda to date explicitly seeks to reverse the long-term rise in US income and wealth inequality. The planned rise in the top income tax rates, higher tax rates on capital gains and dividends, higher corporate taxes, lower the burden of student debt, raise minimum wages, and improve employee bargaining power are very much part of this agenda but there is also an immediate focus on measures to offset the negative impacts on lower income households from COVID-19. The $2.3 trillion infrastructure plan unveiled in late March explicitly seeks to raise US productivity and the $1.8 trillion American Families Plan seeks to strengthen and raise weak US social safety nets.
- In the UK, discussion on a UBI is ongoing, the argument being made that this removes distortions / adverse incentives in the social security system that provide more flexibility and greater freedom to change jobs. Since the furlough scheme has in effect moved the UK in that direction already, a recent LSE study has suggested that a UBI would work better and may not be that costly (November 2020). Corporation tax raised as early part of higher revenue gathering to fund needs of public services. The 2021 UK budget announced an extension of the levelling up fund (£4.8bn) to be directed to areas facing challenges that have received less government investment in recent years.

Will business behave differently to move to a more stakeholder-focussed approach?

- Increased government leverage over economy and business and lessons of COVID-19 prompt changed business attitudes.
- More stakeholder emphasis to take employees, customers and suppliers into account.
- Stronger competition regulation on business.
- Less disparity in employee compensation – share buybacks could fall.
- Corporate ESG responsibilities are acted on.

What has happened since?

- Moves towards a more stakeholder focus in big business have multiplied in the past year, coming from CEO and board-level reorientation of corporate governance and objectives and externally from regulation, government encouragement and asset management conduits being more activist. In November 2020, McKinsey set out four principles for a route map on how companies could move towards a more stakeholder focus in November 2020 : Boardroom representation of stakeholder interests, setting and tracking environmental goals, working with suppliers to build capabilities and skills (to check impact on consumers, contractors and their employees) and a focus to serve consumers' long-term needs. Germany has a new law passed in March that requires companies to ensure that their supply chains protect human rights.
- Diversity in a human resource context has become an important element of the new stakeholder focus in the past year (as an example SSGA informed board chairs in August 2020 that 'companies in its investment portfolio will need to articulate their risks, goals and strategy as related to racial and ethnic diversity and to make relevant disclosure available').
- Limited moves in the US towards limiting disparity in employee compensation and share buybacks are now resuming though still much lower than pre-pandemic levels, but there is more focus on workers' rights and enforcement / raising of minimum wage. UK High Pay Centre found no narrowing of the FTSE 100 CEO to average employee compensation ratio in 2020.
- As climate-change related migration increases, corporate treatments of staff in different jurisdictions facing differential effects is a growing issue vis a vis consistency with 'Net zero' and stakeholder commitments.

Will there be a step-up to a faster carbon transition?

- Scope for carbon taxation / carbon pricing markets expanded from currently minimal role.
- Environmental safeguards strengthened on companies and households to meet Paris agreement goals.
- High carbon footprint sectors (aviation / shipping / long supply chains) are encouraged to move to more sustainable forms.
- Government infrastructure spending steps up to favour green agenda.
- Global fossil fuel demand and production falls.

What has happened since?

- The key developments here are declarations of intent to move towards carbon neutrality coming from many countries in the past year. In a recent report from the Energy and Climate Intelligence Unit released in March, 124 countries were tagged as either already committed to or close to making net zero commitments so that not far away from two thirds of global emissions are now covered by these commitments. Perhaps more importantly, more companies have made net zero commitments – a trickle before the pandemic has turned into more of a torrent in the past year. UNPRI, which monitors the companies taking action currently shows 1350 companies globally taking emissions related action in some form, with the great majority of the commitments coming through in 2020/21.
- But for both governments and companies, targets and implementation are different things. There are some patchy route maps (like the UK's phasing out of internal combustion engines for vehicles by 2030). Whether it is companies or governments, however, much more detailed and concrete implementation plans look necessary. For companies, some may be coming through because investor choosiness in this area now provides a strong incentive to 'over-declare' green credentials. Some targets that have been set are very woolly and highly diverse. Even with governments, targets are being set differently (greenhouse gases in the EU, CO_2 for China) and the role of CO_2 removal is usually not covered or explained. Major policy inconsistencies have surfaced in the past year, the pandemic's governmental-central bank rescue programmes allowing fossil fuel companies cheap funding access.
- Alongside, government infrastructure programmes are being set with a distinctly green hue. The strongest example of this is in the US's new multi-trillion-dollar infrastructure expansion plan, with its large spend in helping vehicle use move to electric generation. Much the same trend is observed in China as the newly launched five-year plan looks to fund and hasten the transition away from coal to 'low carbon tech for a carbon constrained world' with increased investment in renewable power, EV's and battery storage. The UK has several patchy initiatives in the same direction, and similar trends towards green infrastructure building is observed in many more countries.
- Less obvious movement towards a stepped-up carbon transition appears from looking at global fossil fuel demand itself. This fell at best marginally in 2020, mainly the result of Covid-19. That said, under current plans to hasten the carbon transition, there is a widespread expectation that fossil fuel demand is likely to peak in the next decade. Though oil, coal and gas will peak at different times, there is a consensus shaping up that peaks are approaching (coal may have peaked, oil to peak in the next half decade, but there is much more uncertainty over global gas use).

Investment Impact and Actions from the Structural New Normal Scenarios – Summary

Our investment view last year, that over time such New Normal shifts would, in combination, pose some challenges to market conditions remains intact, even though a year is too small a timescale to fully appreciate the investment impact of some of the changes that are coming through. For now, market conditions are still dominated and supported by economic reopening and extraordinarily loose fiscal and monetary policy.

Essentially, these changes, IF followed through, will reflect a changing economic order in which companies will face higher taxation, higher regulation, more disruption and higher costs from these structural and the localisation / trade and economic conflict trends noted above. This is a major shift in the market environment that had prevailed earlier which was highly favourable for profits and investors were able to reap those gains easily. It looks likely to become tougher. In time, if the new order reverses the increase in economic fragility that has occurred, market conditions should improve again, but the timescales for this improvement are uncertain.

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