Who dares, wins?
The investment battles of COVID-19

Investing has become a game of chicken in the eyes of some investors. Has COVID-19 become a buying opportunity? Have we seen the bottom, or is the worst yet to come? It's hard to make any solid predictions in this unfamiliar territory – investment markets have experienced a health crisis rather than being undone by poor fundamentals, such as in the global financial crisis. In light of this, investors might choose to combine a look at the here and now with the long-term trends.

The essentials

Investment markets have been hard-hit by volatility in recent weeks, making it hard to assess whether prices reflect the chances of long-term struggle compared to short-term dips. There are a number of areas which may benefit from the current situation – or if not benefit, then at least be able to largely continue normal operations, some form of stability in a strange world.

To put a light spin on it, there are probably more than a few people wishing they'd invested in the pasta-makers or toilet paper suppliers of the world before this started.

So, what exactly are the areas which can continue to operate and potentially even increase revenue in the current environment?

The consumer staples sector is an easy starting point, even ignoring the panic buying. In difficult times, people need basic supplies to live. Supermarkets like Woolworths and Coles are hiring more staff to keep up with demand[1], and have seen sales rise two-to-threefold from panic purchases[2]. Some restaurants have tried to tune into this need to survive, for example, Rockpool Group's Fratelli Fresh has transformed into a grocer and food delivery service during the crisis.

The consumer discretionary sector is more of a mixed bag. There is no question that some parts of retail, such as fast fashion companies, will really face challenges from social isolation. Others have seen some benefit from the changing world – though this may be a temporary boon. For example, people rushed to buy home office equipment in the initial days of lockdown, a benefit to companies like Harvey Norman, JB Hi-Fi and Officeworks[3].

Another sector which can continue to operate in the current environment is infrastructure, such as railways, energy suppliers and telecommunications. These types of companies normally have monopolistic fee structures and have very high barriers to entry with predictable revenue streams. This means they aren't expected to rise as much in good times but are less likely to be materially impacted in the bad times. Regardless of the economic situation, some infrastructure tends to come under essential services and continue to be needed. In the current situation, telecommunications (including internet providers) and energy suppliers are prime examples. In fact, we're more dependent in the lockdown situation than we've ever been on telecommunications to assist with allowing society to continue to work or learn from home, along with home electricity to keep it all moving.

Investment ideas: An ETF like ETFS Global Core Infrastructure ETF (ASX code: CORE) can help you access global infrastructure companies. You'll find many consumer staple and consumer discretionary companies are also included in country-specific funds like ETFS S&P/ASX 300 High Yield Plus ETF (ASX code: ZYAU) or ETFS ETFS S&P 500 High Yield Low Volatility ETF (ASX code: ZYUS).

Defending your portfolio

Those investors looking for defensive assets during this period could also look towards precious metals like gold and silver. As demand for these is driven by a wide range of factors and they are used for both consumption and investment purposes, they can perform differently to other asset classes.

Gold in particular has been used as a safe haven asset in the past for its low and at times negative correlation to other asset classes.

This quality means it can perform differently in a range of investment markets. In the current COVID-19 situation, between 19 February and 26 March 2020, gold gained 12.4% compared to the S&P 500 which fell 14.1% and the S&P/ASX 200 which fell 27.8% (all in AUD terms). Silver has traditionally performed in a similar way to gold.

Investment ideas: You can include gold or silver exposure in your portfolio through ETFs like ETFS Physical Gold (ASX code: GOLD) or ETFS Physical Silver (ASX code: ETPMAG).

Accelerating the megatrends

While in many ways the COVID-19 pandemic has created dramatic and unwanted changes to our lives, in other ways, it has served to accelerate existing trends such as ecommerce or online entertainment. These fall broadly under the megatrend for virtual connectivity and digitisation, already rapidly growing and profitable areas.

Ecommerce was estimated to reach 20% of worldwide retail sales by 2022[4] as consumers became increasingly attuned to the convenience and efficiency of online shopping. You may well wonder if we've hit these estimates early off the back of Amazon's announcement that it would need to hire 100,000 people to keep up with the surge in online shopping[5]. Daniel Zhang, CEO of Alibaba commented that ecommerce experienced tremendous growth after the SARS epidemic and he anticipates the current situation will offer similar potential[6]. Existing users may well have upped the ante on their shopping in the current situation, but numbers may also reflect late-adopters finally coming to the party.

Companies enabling robotics and automation technologies might also be unexpected beneficiaries from increased ecommerce. Companies like Daifuku and Ocado which offer expertise in automated warehouses and manufacturing are a natural fit for scenarios like social isolation[7]. In fact, Coles had already announced a partnership with Ocado last year to automate its logistics relating to home delivery[8]. Automation has also had a role to play in other business models.

Social isolation has forced the rapid and instant transition to working remotely for millions globally – a challenge both in terms of work coordination and communication. Companies like ServiceNow, a provider of cloud-based workflow automation software[9], are benefiting from the need for support in managing logistics. Virtual meetings, webinars, streaming are suddenly the norm, with teething issues that might otherwise have taken years to fix needing to be resolved in hours. Companies like Google and Baidu tap into this, as well as smaller companies which have launched into the mainstream like Zoom. We may see permanent changes in traditional business models in sectors like education which have now become, albeit temporarily, dependent on streaming for survival.

It's not just businesses taking advantage of technology. Increasingly, people are making personal plans for virtual 'drinks and dinner parties' to maintain relationships during isolation. While online drinks and board meetings all might look like the opening of the Brady Bunch at this stage, it's fair to assume technology will find a way to modernise the experience, sooner rather than later.

In line with increasing online communications, social media companies such as Facebook and Twitter are regaining popularity and relevance. In the case of Facebook, it has seen former users return to the fold to maintain contact[10] and has announced plans for hiring increases[11].

Space restrictions and isolation are forcing many to seek out online entertainment sources to fill the gaps of theatre, restaurants and sports. Streaming giant Netflix has had subscription spikes in areas which have been particularly hard hit by COVID-19[12] and has even created a "Netflix parties" function to allow people to virtually enjoy and discuss their favourite shows and series at the same time[13]. Online gaming is also booming, with new audiences using it to connect with friends and family, and there's speculation that e-sports could fill the gap of physical sports during this period[14]. It is somewhat ironic that global isolation may actually give gaming, the activity stereotyped by teenage boys in dark rooms with glowing screens, a moment in the sun.

The 'unseen' technology behind much of this – graphics, processing, artificial intelligence – is having to evolve to keep up with the demand for higher quality communications. Companies like NVIDIA, a leader in graphics and AI processing, may find opportunities to further integrate with other partners to enhance virtual communications and entertainment.

Unlike some of the previously mentioned areas, biotechnology has been a more predictable focus during the COVID-19 pandemic. Household names such as Gilead, Moderna and CSL have risen to the challenge of searching for vaccines and treatments. While the success is somewhat of a lottery in biotechnology, the current situation has served as a reminder of the critical role biotechnology has broadly, not just in the current circumstances. Continuous improvement and refinements in technology enhances our ability to find better vaccines, treatments or even ways of doing surgery. Disease is a fact of life and viruses like SARS and COVID-19 will appear again.

Investment ideas: You can access technological improvements through ETFs such as ETFS Morningstar Global Technology ETF (ASX code: TECH) and ETFS FANG+ ETF (ASX code: FANG). Find exposure to robotics and automation through an ETF

like ETFS ROBO Global Robotics and Automation ETF (ASX code: ROBO) or be part of the biotechnology race through an ETF like ETFS S&P Biotech ETF (ASX code: CURE).

Who dares?

In an uncertain time, optimism takes courage. Looking beyond the fear and volatility to find pockets of growth and opportunity can be comforting, even aside from an investment perspective. Have we reached the bottom? It's hard to tell and even harder to predict what overall recovery might look like. We might even have to wait for a COVID-19 vaccine to really see a turnaround. Either way, for those investors considering their move, looking at the bigger trends as well as defensive plays might be their starting point.

For more information on accessing these trends through ETFs for your clients, please speak to ETF Securities.

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