

# The Great Acceleration

The year 2020 is certainly one for the record books. Covid-19 seems destined to become the most lethal, airborne transmittable disease of the past 100 years, since the Spanish Flu. And while the Spanish Flu was far more deadly than is Covid-19 (an estimated 40-50 million deaths worldwide compared to a current Covid-19 total of about 810,000), its impact on the U.S. economy was relatively small. Covid-19, on the other hand, has had an enormous impact on worldwide and local economies. This health crisis caused the fastest 30%+ drop in the S&P 500 on record. We've experienced record unemployment, and measures of national productivity have dropped sharply around the world.

Given the significant economic impact, we've seen comparisons to The Great Recession, and early on even The Great Depression. There is no doubt that our current economic situation shares characteristics with the prior economic crises. But given our collective response to this health crisis, by businesses, consumers and societies in general, perhaps the lasting historical reference to this crisis could be The Great Acceleration.

As we entered this new decade, there were a number of trends that were playing out in the U.S. and around the world. Many of the transitions that were already taking place have accelerated under the circumstances. During a recent earnings call, Satya Nadella, Microsoft's CEO, said "We've seen two years' worth of digital transformation in two months." Here are some examples of The Great Acceleration:

- E-commerce – Perhaps the most obvious, online sales have increased dramatically as retail establishments have been forced to lockdown. Many will lock their doors for good. JC Penney, GNC, Tailored Brands (Men's Wearhouse/Jos A Banks), Brooks Brothers, Ascena Retail Group (Lane Bryant and Ann Taylor), CEC Entertainment (Chuck E. Cheese) and Lord & Taylor have all declared bankruptcy during the pandemic. According to Digital Commerce 360, online retail sales in the U.S. increased 55% year over year in July.
- Artificial Intelligence (AI) – Millions of Americans have lost jobs during the pandemic. Robots and Artificial Intelligence are replacing them faster than ever. In a recent Time Magazine article, Gabe Dalborto, the CEO of Udacity, states that "a billion people will lose their jobs over the next 10 years due to AI, and if anything, Covid has accelerated that by about nine years."
- Work from Home (WFH) – According to Global Workplace Analytics, approximately 4.3 million employees worked at home at least half the time in 2018. Today, an untold number of people work from home due to the pandemic. Kate Lister, President of Global Workplace Analytics, states that "Our best estimate is that 25-30% of the workforce will be working from home multiple days a week by the end of 2021." This trend may have a profound, long-term impact on commercial real estate and residential housing.
- Streaming/Video-On-Demand – Video streaming has been growing for years. According to Variety, video streaming accounted for more than 60% of all "downstream traffic" on the internet during the first six months of 2019. Today, movie theaters are closed and

additional streaming services have come to market...Disney+ and Peacock are the latest two big names. Perhaps seeing the writing on the wall, AMC Theaters recently renegotiated their deal with Universal Pictures enabling the studio to release movies on premium video-on-demand (PVOD) within 17 days of their debut (from 75 to 90 days prior), in exchange for a percentage of PVOD sales.

- Online and Homeschool Education – According to [www.insidehighered.com](http://www.insidehighered.com), the number of college students taking at least one online course in 2018 was 34.7%. That was up from 33.1% in 2017, a nearly 5% increase. Due to the pandemic, one would be hard-pressed today to find even one college student not taking at least one online course. Interest in homeschooling has also increased considerably. A recent national survey commissioned by Varsity Tutors found that 47% of parents are considering home schooling for 2020/2021. This is up from only 3% last year.
- Telemedicine – According to a May, 2020 McKinsey & Company Health Care Systems and Services report, telehealth services accounted for an estimated \$3 billion per year pre-Covid. Physicians and health professionals are now seeing 50-175 times the number of patients via telehealth. This shift is considered likely to continue, and could result in a total spend up to \$250 billion, or 20% of what Medicare, Medicaid and commercial insurers spend on outpatient, office and home health visits.
- At-Home Fitness – Peloton made a splash in 2019, offering equipment and streaming exercise routines to customers, boosting the home exercise market. Covid-19 has moved this shift into overdrive. A recent survey conducted by Harrison Co., a consumer-focused investment bank, has found that 34% of fitness club users have, or plan to, cancel their gym memberships after Covid-19. The survey estimates that \$10 billion annually could leave the club sector, much of it for home fitness options.
- Made in America – Global supply chains have been under pressure for years. The last decade has been riddled with supply chain disruptions, from the many natural disasters to Donald Trump's trade war with China. But Covid-19 has magnified the risks of sourcing from half way around the world. Many companies are revisiting their global supply chains in order to improve resilience, and governmental entities are looking to provide incentives for the domestic production of components critical to national security.
- There are many other accelerating trends, including virtual meetings and webinars, remote manufacturing and production, digitalization of financial services, local vacationing in the great outdoors, and support for local/small businesses.
- Big Data and Cloud Computing – Building on all the changes referenced above, cloud computing and the capture and analysis of data have grown significantly. According to Datanami, Amazon Web Services revenues increased by 33% year over year for the quarter ended March 31, 2020. During the same period, Google and Microsoft cloud revenues increased by 34% and 59%, respectively. Technavio Research forecasts that the Global Public Cloud Services market will grow by approximately \$220 billion through 2024.

Not all of the lasting changes will be good; they never are. Vladimir Lenin, former premiere of the Soviet Union, once said “There are decades when nothing happens, and there are weeks when decades happen.” Lenin brought about a lot of change...much of it bad. Certainly, there will be inequities and unintended consequences that as a society we will have to work through.

Covid-19 has had a profound impact on how we live and love, on how we work and play, and on nearly every aspect of our daily life. Covid-19 also impacts how we invest. The investment market is efficient, and Covid-19 winners and losers have already been identified, at least to our current, collective level of understanding. We will continue to closely monitor developments and the investment environment, with the goal of positioning portfolios to both endure and capitalize on this historic period.

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