

# ACTIVE VOICE *from Putnam Investments*

## Covid, Community, and Climate (C3)

*On March 11, 2020, every associate at Putnam Investments received an email from Ed Whalen, Chief Human Resources Officer, announcing that the firm would begin working remotely in response to the Covid-19 pandemic.*

*A year later, we look back at how the pandemic summoned resilience, and what this means for future challenges for our company, our community, and our climate.*

- **Covid-19**-driven changes for work and for business will have both short- and long-term impacts.
- **Community** has experienced strains yet shown durability, with signs that a communitarian spirit can be revived.
- **Climate** change tested our disaster preparedness over the past year and is well recognized as an existential crisis.

*As a firm, Putnam is committed to keeping you apprised of key trends and their impact and opportunities for our stakeholders. The Covid, Community, and Climate (C3) project gathers perspectives on mega- and micro-trends that have gathered steam for many years and accelerated over the past year. We begin the C3 project with a focus on Covid-19.*

### **Catherine Saunders**

Head of Public Policy and Advocacy  
Putnam Investments

### **Covid-19: Transforming work, policy, and opportunity**

As the spread of Covid-19 morphed into a pandemic in early 2020, the world felt like it was standing at the edge of an abyss. For the first time, the world's governments choreographed a synchronized shutdown of the global economy. In a snap-reinvention of workplace productivity, virtual work-from-anywhere became the order of the day.

At the same time, U.S. policy makers jumped into action, passing the Coronavirus Aid, Relief, and Economic Security (CARES) Act, an historically unprecedented \$2.2 trillion relief and stimulus program, on March 27, 2020. As Republican Chair on the House Ways and Means Committee Kevin Brady (R-TX), speaking for many in Congress, put it, "This is an unprecedented situation requiring an unprecedented response."

Congress extended relief with an additional \$900 billion plan in late 2020, and a new Congress worked with President Biden to expand support with the \$1.9 trillion American Rescue Plan of March 2021.

Through it all, workers dispersed, but companies pulled together and leveraged their values with key stakeholders: employees, clients, partners, and suppliers.

- Corporate leaders prioritized authenticity and transparency.
- Corporate culture suddenly became vital connective tissue to keep people together in a time of social distancing.

- Wellness emerged as a key area of focus, with workdays having no clear beginning or end and many employees facing significant stress with closed child-care centers and schools and family members experiencing illness, isolation, and economic hardship.
- Racial justice was a particularly acute issue alongside the Covid-19 pandemic, placing important focus on corporate commitments to diversity and inclusion.
- This has been a time for firms to embrace and demonstrate core values. Katherine Collins, Putnam's Head of Sustainable Investing, observes, "What we're finding is that companies that are taking a more systemic and holistic view of how their business fits into bigger systems — social, economic, climate, or health systems — are really well equipped to address these issues, to both mitigate risk and also to create long-term business opportunities."

### **Reinvention: Covid-19 made the world virtual**

The initial response to Covid-19 was a crisis management exercise. But a year later, it looks like the opening gambit in an historically profound exercise in disaster continuity, public/private partnership, and bold reinvention.

- With startling speed, the world shifted to digital interaction and virtual meetings.
- If the pandemic had landed a decade earlier — before mobile broadband, friction-free e-commerce, digital logistics, and delivery platforms — it is difficult to overstate how much more catastrophic the Covid-19 pandemic might have been. Remarkably, with hundreds of millions of people worldwide logging on to their schools, places of work, places of worship, conferences, family gatherings, and the like — the networks held.

Out of necessity, businesses sought out new efficiencies, sorting out what to dispel and what to hang on to for the long haul. Analysts today are working to sort out the future of brick-and-mortar retail, travel and tourism, sports, entertainment, and other pandemic-sensitive industries.

### **Economic damage and adjustment**

In early 2020, the United States experienced a 30% decline in GDP, a \$200 billion contraction in corporate earnings, and a tripling of unemployment in one quarter.<sup>1</sup> That gave way to an historic rebound as well as a shift in consumer economics.

The Covid-19 pandemic was exacerbated by the impact of climate change. Gail McGovern, President and CEO of the American Red Cross commented, "2020 was the worst disaster season in modern history." It's easy for many to forget the historic hurricane season, with 30 named storms and 12 that made landfall in the United States alone.

Communities were stressed, but over and over again, we witnessed recovery:

- Households restructured their balance sheets. The U.S. personal savings rate more than quadrupled to 33.7% (a 60-year high) in 2020.<sup>2</sup> Americans eliminated some \$123 billion in revolving debt in 2020, reducing totals to less than \$1 trillion.<sup>3</sup>
- A mountain of pension funds and retirement savings took a hit early in the pandemic, contracting by 11.3% in Q2, but roaring back at a rate of 6% per quarter, ending the year at \$35 trillion in assets, up from \$33 trillion at year-end 2019.<sup>4</sup>
- Home prices rose, and families renovated to accommodate home offices and space for remote learning. According to a survey from Home Advisor,<sup>5</sup> average household spending on home services in 2020 rose to \$13,138, an increase of 45% over 2019.

Internationally, due to both the Covid-19 pandemic and trade tensions, global supply chains are changing. Di Yao, a Putnam portfolio manager, wrote, "Many stand to benefit, including capital equipment makers. We believe this 'reverse globalization' will boost growth as new manufacturing facilities are built."

The U.S. economy and society are known for dynamism. Companies have been relocating business lines and jobs from high-cost regions for decades; the Covid-19 pandemic simply accelerated this trend.

## The capital markets opportunity

In 2020, U.S. financial markets grew robustly, even with the economy upended. Interest rates at zero, an historic increase in money supply, and the early rollout of massive stimulus programs were clearly the primary drivers. But investors also played their role — looking beyond the pandemic and embracing investments that they believe will thrive in the post-Covid-19 economy.

- 2020 was a record year for stock market initial public offerings (IPOs) — a record \$167 billion.
- Looking ahead, some analysts are anticipating a kind of second “Roaring Twenties” to parallel the booming markets that followed on the heels of the 1918 influenza pandemic.

Putnam portfolio managers Richard Bodzy and Greg McCullough recognized that the pandemic accelerated some changes, compressing multiyear transitions into a matter of months. As they evaluate trends, Bodzy and McCullough note, “Idea generation can come from a lot of different areas . . . we consider what we see changing around us.”

## Investment framework 2021

Putnam Senior Market Strategist Chris Galipeau foresees robust economic and market momentum across 2021–2022. “As always, our stakeholders need a sustainable and repeatable framework to take in what is most important and relevant in these rapidly changing times,” he said.

- Median forecast GDP growth, 2021 — U.S., 3.5%; Europe, 2.5%; Emerging Markets, 4.5%
- Strongest real U.S. growth in 16 years, fastest worldwide in 20 years
- Core CPI inflation 1.6% — well below the 2% Fed target

## Through it all, resilience

The tragedy of the Covid-19 pandemic is all too apparent. We pause to remember and grieve. We reflect on the impact of the pandemic on so many in business categories deeply affected, such as hospitality, travel, entertainment, and so on. The remaining challenge is to recognize the proof of resilience that emerged. Heroes in healthcare. Families drawn closer. Companies showing compassion. Innovative vaccines in record time. Humanity protected itself better than in the 1918 influenza pandemic. We continue to battle today’s pandemic, but we also move forward.

For the financial services industry, this means optimizing investment, deploying capital wisely, speeding innovation, and ensuring that individual Americans take maximum advantage of economic recovery in achieving their goals — the well-being and education of their families and a dignified retirement chief among them. By guiding investors to appropriate investment, the financial services industry can help make it easy to succeed and difficult to fail.

## Next in C3: Community impact

The Covid-19 pandemic, and its economic impacts, have been particularly severe among groups that have long struggled with economic equity. Our next edition of C3 will focus on how communities have fared throughout the pandemic, the uneven rebound (often termed a “K-shaped recovery”), and the manner in which recovery may build a new sense of solidarity in the economy, in politics, in markets, and in society as a whole.

1. BEA data | <https://www.bea.gov/data/income-saving/corporate-profits>
2. Federal Reserve St. Louis Data | <https://fred.stlouisfed.org/series/PSAVERT>
3. U.S. savings and debt during the COVID-19 pandemic | <https://www.nbcnews.com/business/economy/americans-are-saving-more-during-pandemic-there-s-still-huge-n1257252>
4. Investment Company Institute data | [https://ici.org/research/stats/retirement/ret\\_20\\_q3](https://ici.org/research/stats/retirement/ret_20_q3)
5. <https://www.homeadvisor.com/r/wp-content/uploads/2020/11/DP6355-StateOfHomeSpending-2020-R3.pdf>

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