



## What might be the long-term impact of Covid-19?

**As countries begin to ease lockdown restrictions, investment managers are focusing their attention on the more immediate impact of the virus on the economy and individual companies and sectors.**

But it is also clear that current events could have broader and longer-term consequences, not just on the economy but potentially on the fabric of our society as well.

We should be clear at the outset that we think it is absolutely right that many governments are stepping in at this time to support businesses and individuals and limit the social and economic impact of Covid-19. But an obvious consequence of this is that government debt burdens are set to rise sharply.

Governments have of course been running with high debt burdens for several years and the theory is that, provided interest rates are below GDP growth and there is no budget deficit, debt burdens will naturally erode over time.

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Managing this is substantially easier for countries that issue debt in their own currency as they have more tools available to keep rates low and can ultimately stand behind their own debt by printing money.

With a relatively long dated debt profile, and the prospect of interest rates remaining low for some time, it may well be that the UK government, for example, can manage these increased debt levels with less recourse to austerity or tax increases than some are fearing.

There are clear risks to this view, however, and there are greater concerns elsewhere with countries such as Italy and Brazil potentially facing more serious issues. We should not overlook debt levels in Japan or the apparent spending profligacy in the US either.

More broadly we have seen the role of the state increase significantly in recent weeks. Governments have now stood behind a substantial segment of the corporate sector (not

just the banks as they did during the global financial crisis) and doing so puts a much broader range of powers at their disposal.

It remains to be seen whether this is a temporary phenomenon or a more permanent shift of influence. The latter could herald important structural and cultural changes in UK PLC. A bigger state would also need funding of course.

**"Some argue that the virus could hasten a perhaps already apparent shift away from globalisation."**

Some argue that the virus could hasten a perhaps already apparent shift away from globalisation. Companies with global supply lines are either being forced, or are choosing, to look at more local alternatives.

We are seeing little cohesion in the actions that governments are taking against the virus and, in some countries, the line between necessary virus-driven isolation and more nationalist and protectionist actions is becoming more blurred.

There are many more questions we could raise here. How might the experience of lockdowns change working practices going forward? And where does this increased government debt burden leave all the infrastructure spending that was being seen as a key tool to support growth in many economies?

It is arguably too soon to answer many of these questions. But what is clear is that Covid-19 could have a longer term, and potentially quite profound, impact on our world.

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