

Covid has not gone away

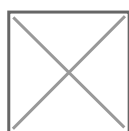
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Since the turn of this century, the global economy has become more and more interconnected: be it in the manufacture of goods, the influence of the world wide web on the instant information flow from one location to another, or indeed the ability to provide services to clients from offshore locations such as India. With this interconnectivity has come a more synchronised economic cycle as a large component of economic growth for individual countries has been driven by the demands of other countries, primarily the US and other developed nations.

Following the 2008 Great Financial Crisis, the resultant economic upswing was synchronised as the response to the financial crisis, once contained within the developed economies, led to increased demand for goods and services within these economies, whilst countries such as China and India already had strong domestic economies. A win-win scenario you could argue.

We do not see this cycle being the same. Whilst the Pandemic may be close to being controlled in the developed economies, it is rampant in places such as Brazil, Uruguay and now India. This will depress domestic demand for the foreseeable future in these countries, not even accounting for the terrible human tragedy which is unfolding.

To illustrate the point, India has just confirmed over 320,000 daily cases of Covid with over 200 daily deaths. The number was less than half of this less than ten days ago and current modelling suggests could be 10 times this by mid-May. Unlike the UK and European countries, however, where lockdowns have been used to strangle the transmission of the virus, India's Prime Minister, Narendra Modi, held a national public address this week confirming that he does not wish the country to lock down and that vaccines and treatments are the central government's preferred policy tool against the increasing prevalence of the disease.



The cases of India and Brazil are illustrations of how this disease will continue to impact economic growth for longer than most would expect. As human beings, we have a bias to keep abreast of matters that affect us locally and do not always put this in a broader context. Cases in the UK have fallen so we feel positive and tend to ignore anything that erodes this positivity, as our recent experience has been so negative.

At Tacit, our view is that now is a time to invest globally but think locally. Certain countries and companies will recover from the economic downturn of the past year quicker and stronger than others and it is vital to be selective in our positioning on behalf of clients. Our firm belief is that the US will lead the recovery, partly because it always has, but more importantly due to the policy actions being undertaken by President Biden. Countries and companies that are tuned in to this economic rebound will provide very strong returns over the coming years in our view. These are not all domiciled in the US but many of them are. It is for this reason that our equity exposures are skewed away from emerging economies and towards the US at present.

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