

# **The Merrill Perspectives Podcast**

## **Life After the Coronavirus**

With  
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**Candace Browning:** It may not feel like it now, but one day the pandemic will be over. When that day comes, one thing is certain. Going back to the way life was before the outbreak isn't in the cards.

We're having to adapt to many changes - in how we work, travel and communicate with family and friends. And the coronavirus is also accelerating other broad-based shifts that were already underway in areas like global trade and where and how countries, including the United States, make and produce things.

It also promises to dramatically alter how we think about investment opportunities well into the future.

So what might life look like on the other side of the coronavirus?

**[THEME MUSIC]**

Hello, and welcome to this market edition of the Merrill Perspectives podcast. I'm Candace Browning, Head of BofA Global Research. Our last podcast looked at the road to recovery through 2021. Today we're going to fast forward two to five years to a post-coronavirus world changed in fundamental ways.

Joining me for today's discussion are Chris Hyzy, Chief Investment Officer for Merrill and Bank of America Private Bank.

**Chris Hyzy:** Hello, Candace.

**Candace Browning:** Haim Israel, Head of Thematic Investing, BofA Global Research.

**Haim Israel:** Hi, Candace.

**Candace Browning:** So Chris and Haim, we've seen a number of really encouraging signs that we're making progress in confronting and taming the pandemic. Economies around the world are opening up, more testing is happening, a number of vaccines are already underway.

But we know that full economic recovery can't come without a real end to the health crisis. What needs to happen to get us there?

**Haim Israel:** Well, quite a lot needs to happen. First, we need to understand that the world after Covid virus is actually the world with Covid virus. Even when we get the vaccine, it's going to take a lot of time and a lot of time up until most of us will get it.

We need not just end the healthcare crisis but we need to end the health scare crisis, meaning that the increase of confidence has to come back. We need to see an increase in that confidence, in the economy, of consumer, of people and the healthcare system. We also need more data. We need more information out there. And we need to address social concerns. We need to understand that this crisis is not just a healthcare crisis right now, but it is also a social crisis and will have profound implications. We need to understand that.

**Chris Hyzy:** Yeah, I would add to what Haim said. I think the key word here without question is confidence. Technology, science and the unprecedented policy responses are what get us through and in the decades ahead it could be many different types of viruses, therefore it is a full all-encompassing healthcare technology movement that needs to happen.

**Candace Browning:** Okay. Let's jump ahead a couple of years to 2022. Assuming that the crisis is behind us and we've regained confidence and recovery is well underway, what sort of world are we living in? What might our lives actually look like?

**Haim Israel:** So the short answer, Candace, is that 2022 we will live largely in quite a different world. Whatever we thought was going to happen 5 to 10 years from now probably is going to happen much faster. First of all, we will live in a world of geopolitical tension, polarization. World where the two superpowers, China and the United States, will openly compete on world domination. As a result, we'll see geopolitical polarization, trade, tech and capital wars.

Deglobalization, which is a thing that we've been discussing for a long time, will happen faster at a much greater rate. And in 2022 the economy is going to be much more digitalized than it is today, much more online than it is today. As a result, we'll see an acceleration in investment in technology partially led by governments, because of the tech war and because of the geopolitical angle between China and the U.S., but also because we will live, shop, work in an online environment.

Governments themselves will be bigger and are going to be more influential and involved in our life. We will approach healthcare in a very different way. We'll be in a safer world, but the currency for this safety is going to be with privacy.

**Chris Hyzy:** Yeah. Following on what Haim said as it relates to deglobalization or localization depending on how you want to take a look at it. That upsets many different ways that a company actually goes about doing its business whether it's the labor force, whether its contracts in other countries,

manufacturing facilities. There's also within country de-urbanization and that moves the labor force to a secondary city or a tertiary city and that expands the suburbs as well. So this is far wide reaching versus just being a supply chain issue.

**Candace Browning:** So let's dig a little deeper into the health aspect. It's almost certain that everything about healthcare, from how we deliver it and receive it to the privacy associated with it, to where we source pharmaceutical ingredients. All of that's going to undergo I think tremendous change.

So Chris and Haim, what are your thoughts on healthcare?

**Chris Hyzy:** First and foremost I think it's really important to really think about how you spend dollars within the healthcare realm and certainly greater coverage, more robust coverage is number one.

Number two, as it relates to innovation within healthcare, one of the biggest costs is the expense end of not just running a hospital, but actually connecting systems together. Systems simply don't talk to each other. You have significant inefficiencies there.

And third, if you think about just the globe itself, you have more than 118 different vaccine research trials going on as we speak for this latest virus pandemic. That has an angle of coordination never before seen.

And I would say this – the critical aspect of today's type of innovation in healthcare is the convergence between healthcare and technology companies coming together, utilizing new techniques to fast track potential treatments, vaccinations, testing and tracking.

Haim Israel:

I completely agree with Chris. People need to feel comfortable that the healthcare system is actually working for them. This is not exactly what's going on right now. The current healthcare market is completely inefficient. Globally today we're expensing 10% of global GDP on healthcare. (*Source: World Health Organization, 2019*). Put a number behind it, it's give or take around \$8 trillion worldwide. The interesting thing is that we're wasting 40% of this number, up to 40%, so that's one thing we need to address.

I think from here onward, governments understand and will understand that healthcare is not necessarily a service I just need to supply my citizens and my communities. That's good but there's a bigger picture over here. Healthcare is an economic, political and geopolitical force and weapon and this is how government is going to start looking at it from here onward.

Look at what's happened to countries which managed to get out of this crisis first - opened up their economy, went back to normality faster, started to even export their healthcare systems to other countries to fight the pandemic. And we do understand that this is not the last pandemic. We're going to see more, so we need a completely revised healthcare system.

Today the system is very inefficient because there's less and less use of technology. There's no use of big data analytics. There's no use of AI.

In the global medical world today, we are multiplying global medical data every 73 days. Every 73 days we are multiplying global data. (*Source: ACCA, KPCB, 2011*). We're just not using the data. And I think from here onward governments are going to start using this data, going to start communicating between different data agencies, and by that get a much

better system, much more preventive system where they can do more projections going forward and by that, even decrease the overall cost.

Today, 97% of all the drugs and treatment that you're consuming today are treatments. Only 3% go for prevention. So we think the convergence of biology and technology is the way going forward for us.

**Chris Hyzy:** Candace that is an absolutely critical point. It is a global effort because it is a global pandemic and that is the biggest issue that we are likely to face in the coming decade. And that relates to yes, potentially bigger governments, but it actually creates a better public-private partnership between government and the private sector specifically as it relates to what Haim said which was biology and technology.

**Candace Browning:** So let's talk about the role of government going forward. How does this concept of bigger government play out in the United States and what are other governments around the world doing? Could there be real implications for privacy rights as well?

**Haim Israel:** Yes, governments are going to become bigger and way more influential than they used to be. Candace, if we take the total fiscal stimulation and capital injection and money printing we're reaching to roughly \$18 trillion. At the peak of the crisis the Fed was printing \$1 million every second. That's unprecedented numbers.

Governments understand that they need to get more involved in a lot of different industries in our lives in order to prepare for the next black swan. They cannot sit and just wait that things will happen and again, find themselves in this kind of situation, so they need to get more influence in a

lot of different industries. We're talking about technology, transportation, secure supply lines, healthcare, we just spoke about that, and so on.

There's privacy. Governments will want access to more and more information. If it's to protect us, if it's to prepare for the next big thing. Citizens will need to understand it from here onward that privacy is going to be reassessed. And it's quite clear that this pandemic is not the last black swan that we're going to face. So governments are going to control more and more data on us and going to use this data to prepare for the next big thing.

**Chris Hyzy:**

Yeah, and following on what Haim said, every decade after a really devastating type of crisis, there have been things that have been accelerated that possibly would not have been without that particular crisis.

This current pandemic is accelerating many things. The biggest thing that it is accelerating right now is the role of Congress, the Federal Reserve, and governments around the world in terms of injecting trillions. Globally we're approaching 30% of GDP in the combination of stimulus and liquidity. And in the United States, if you include the Fed's expansion of their balance sheet, close to 50% of U.S. GDP. That's somewhere around \$10 trillion.

When you think about that, governments, when they put that kind of stimulus and liquidity out there, are going to want to be bigger. However, regulation doesn't necessarily have to go up and shoot through the moon. We've seen that already in the healthcare side – potential vaccines fast-tracking themselves to what used to be two plus years to potentially less than a year. Others, as it relates to the technology sector, working together

with the healthcare sector and it takes trillions of dollars to make this happen.

The point here is the role of government is to provide a framework, in our opinion, that businesses and society can thrive in. In some cases it takes a crisis to fast track that, to come to the realization that public and private partnership is significantly needed to get us through to the other side.

**Candace Browning:** Well, I think that's a very good place to turn to the markets and start talking about some of the risks but also the opportunities that are presented as a result of the pandemic.

Haim, let's start with some of the longer-term trends that you're seeing both in terms of risks but also importantly, in terms of the opportunities brought about by new innovation.

**Haim Israel:** As I said, it's a completely new world and we need to understand that and as a result, each and every industry will be impacted. Some of the benefiterers from this new world is definitely going to be technology. It's going to be about digitalization of the economy and really advancing data creation. So tech is going to be one of the winners.

Processing power. We believe that by the end of this decade there's going to be half a trillion of connectible devices, all of them need to be powered. So semiconductors are going to be one of the winners over here.

Data storage, data usage. We are doubling global knowledge every two years. We're using more and more of this data. We need to store it. We need to analyze it, so AI, cloud, storage, everything is going to be big winner over here.

The new consumer is going to be an online consumer, so online is one of the sectors that we'll see a big tailwind from all of that. We believe that roughly 28% of all commerce in the world will be online by the end of 2022. The same number in 2017, roughly 10% of the global commerce was online. (*Source: BofA Global Research, June 2020*).

We believe we're going to see a big revolution in the health tech industry. Food tech. We're going to be very, very careful and sensitive about the food that we're eating, the quality of the food, the origin of the food. A quick anecdote is four out of every five pandemics out there in the last couple of centuries all came from food. So we think that food tech is definitely going to be a winner.

Some of the headwinds and sectors which are going to be challenged in the new world – we believe that we will see less demand for oil and gas. We have talked about peak oil coming already by 2027, close to the end of this decade. We think that coronavirus definitely highlights that this is the case.

We think the automotive market is going to be challenged. The new consumer which is coming, Gen Z, does not want to drive. There's a 50%, 5-0, decrease in driving licenses in the U.S. in this generation compared to the older generation. The cars that will be on the street will be EVs, so that again has an impact on oil and gas.

Office space - we will work from home more, probably not in the same numbers like today. But think about what will happen if 10% - 15% will work from home or will have the flexibility for some kind of work from a home environment. Office space is going to be under a lot of pressure. Commercial real estate - if we are moving to online, commercial real

estate is going to be challenged in the new environment, bricks and mortars.

Chemicals, any petrochemicals which have a low ESG footprint we believe they're going to be challenged in this new world. So those kind of traditional industries will have to rethink their ways, while new industries—technology, health tech, food tech and new media—are definitely going to be the winners of the new world.

**Candace Browning:** Chris, is there anything that you want to add to that in terms of sectors or industries that could benefit from these changes?

**Chris Hyzy:** Yes. Absolutely, Candace. I would point to a couple of things. We've long discussed this concept of The Great Separation, and separation has started out from a physical and social distancing perspective but now it's a great separation away from how we worked, how we lived, how we operated in the past. Companies, households, governments, people in general are going to have to go through a great adjustment, much of which has already occurred but still ongoing.

We like to call it e-everything. You will learn to do things much more virtual, digital, and that goes from everything from entertainment to how you travel to how you enter into meetings, to how you work, to how you capture an experience. And if you think about the older community, how do you allow that community, that cohort to remain productive in the post pandemic world? That has to filter down into how they move about, and mobility is being reconfigured as we speak right now. Whether it's eventually fast tracking retail use of driverless cars or it's simply expansion of current business models of moving people from one place to the next.

**Candace Browning:** Well on a practical note, let's talk a little bit about portfolios. Obviously, we understand that the world is changing dramatically. What steps should investors consider taking right now to help prepare them for all this change?

Should we be looking at growth versus value since we're in a recession? So just very interested in both your thoughts on the practical implications for portfolios.

**Chris Hyzy:** Yeah. From a practical perspective—you always start with goals. What's your goal? What's your timeframe? The amount of risk you want to take? From our perspective, it's easy to suggest that things are very concerning right now given everything going on and not just in the economy but also in society at hand. But the bottom line is, capital will likely always flow to the greatest risk adjusted return. It just needs time.

And as time goes on and we filter in the themes that Haim talked about, we would suggest adding to equities, having a higher equity allocation perhaps than you normally consider given where rates are, if you're a multi-asset investor. More frequent rebalancing because of volatility, being more active in your decision making and mixing value and growth.

From our perspective, Candace, if you look at the industrial sector itself right now, typically a cyclical area of the market, it has a lot of value. It's got defense and aerospace in it. It's got HVAC companies in it. It's got chemical companies. You would think that how in the world would that be a growth sector? Well, it can be because of the use of technology. So we're seeing value companies becoming growth. We're seeing growth companies during the crisis became value, which is why we believe having a blend of both makes sense.

Now last point is this. Small companies drive the engine of growth for the U.S. It's important to have not just exposure to large-cap S&P or large-cap Dow type companies. It's important to have exposure of a mix of small companies, mid and large within the U.S. to drive ultimately that growth you're looking for and that goes the same thing for non-U.S. markets. There are economies outside the United States that work outside of the U.S. cycle and could potentially add diversification into a portfolio.

**Haim Israel:**

I completely relate to the points that Chris have raised. I want to add my two cents in terms of value over growth. Most of the sectors that we've been saying are going to be the winners of this new world or beneficiaries of the new world are growth companies. If it's high tech, if it's health tech, food tech, media, payments, and so on, those are definitely growth companies and growth sectors.

I would be very sensitive to companies, value companies, which are growing and implementing more growth strategies and implement technology into them. I think eventually those are the companies that will survive. We'll still need value companies in the new world, definitely, but the value companies that will survive in the new world are going to be the ones that adjust to the new world and will have to rethink technology into them.

**Candace Browning:** Thank you, Haim and Chris. Are there any final thoughts that either of you would like to share on what our lives might be like if we get to the other side of the pandemic?

**Chris Hyzy:**

Candace, I'm going to take the investment side of this equation. We're going to eventually get into a recovery, a full recovery, a more robust recovery. But as we approach that area and that new frontier which we tag

as 2022 and on, it's important to invest now, reexamine your portfolio now, make the appropriate adjustments that can potentially benefit from this expansion we do see eventually coming and very much so at the early days of a potential new secular bull market.

**Haim Israel:**

I completely agree with Chris and when I look from a historical perspective, pandemics are those rare events in history that will completely reshape everything. If you look at the Black Plague in 15<sup>th</sup> Century, it helped to end the Middle Ages. It could even argue that it was one of the main catalysts to emerge Europe from the medieval age to the renaissance. So I do believe that the coronavirus crisis will leave its mark on history. It will reshape societies, markets, economies, politics, geopolitics and when it happens, we have to be in front of it.

**Candace Browning:** Well on that note we'll end it here. Chris, Haim, thank you very much for your perspectives and for giving us so much to think about as we look ahead to 2022 and beyond.

And thank you all for listening to this market edition of the Merrill Perspectives podcast. My co-hosts have been Chris Hyzy, Chief Investment Officer for Merrill and Bank of America Private Bank and Haim Israel, Head of Thematic Investing, BofA Global Research. I'm Candace Browning, Head of BofA Global Research.

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Thanks again for listening.

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