UNDERVALUED SHARES

13 investment trends for a new world

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Dear Reader,

It's been a rough stretch.

As investors the world over have learned, a virus can teach humility.

There won't be anyone with an unblemished portfolio right now. Everyone is taking their licks. It's easy to feel dumb. What's worse, no one can currently tell how the story is going to end. We are in the midst of some kind of hybrid monster mashup of 1987, 9/11, SARS, and October 2008.

However, every storm passes.

Humanity is already adapting to its new reality. Discoveries that could help lessen the impact of the coronavirus are announced on a daily basis. A few days before I put this report online, news broke about two American companies advancing rapidly towards developing vaccines.

In my never-ending attempt to look down the road and behind the next bend, I am going to inject some optimism into the debate.

The birth of a new world

The coronavirus crisis will turn out to be an inflexion point of sorts.

From here onwards, the world (and stock markets) won't continue as a linear extrapolation of the past.

Think back to 9/11, and how people now remember it as a "before" and "after".

The coronavirus, too, will be seen as the end of an old world and the beginning of a new one. There'll be a pre-corona era and a post-corona one.

Whenever such a significant change occurs, new companies are built and fortunes are made - often in ways that would have been unimaginable before.

Let's stick to the example of 9/11. Who remembers how stocks of airport security companies went through the roof after the markets reopened from their traumatic four-day closure? The leading airport security company of the time saw its stock price rise by a factor of 15. Fortunes were made, and the company subsequently received a multi-billion takeover bid. Shareholders made millions, not on the back of the victims of the tragedy, but because of these companies providing solutions for new problems. It was the problem-solving force of capitalism at its best.

Right now, everyone is struggling to deal with the immediate fallout of the virus crisis. The priority has to be to minimise the number of infections and victims.

However, there will be a time when the world starts to think about the opportunities that are arising out of all this.

I don't mean buying supermarket stocks to make money off hoarders. That's the ultimate short-term bubble. Anyone who now purchases lots of canned food will eventually have to eat all those beans – never mind their pile of toilet paper. Hoarders will buy less over the coming months because they have to use up their supplies. Leaving aside all the food that is now going off in peoples' larders, there isn't all that much the supermarkets will have gained on a net basis once you factor in the future reductions in shopping. If anything, you might want to pre-empt the next wave of headlines by investing in companies that specialise in diets and fitness. By the time this is over, millions of people will have gained weight from comfort eating during the lockdown. They could shop LESS because they'll be on a diet, but they might use some of their dollars or euros towards working it all off. You get the idea. The boom in supermarket stocks does indicate, though, that investors are always looking for opportunities arising out of a crisis. The market never stops looking for "The Next Big Thing".

Once the dust settles, we are going to see new trends of a much bigger magnitude. Currently, we can only see a shadowy outline but we'll soon realise that these are new multi-year growth opportunities.

All the uncertainty and volatility we are experiencing right now is akin to a birthing process. It's messy. Intense. Scary.

But amazing things are ahead for us. The coronavirus pandemic won’t destroy global financial markets, and the subsequent opportunities will be SIGNIFICANT. A lot is going to happen over the next few months, and you should start thinking NOW how to best benefit from it. **We all need to rebuild. There is only one way: forward.**

What this article can (and cannot) do for you

First off, let's be clear that I am not an epidemiologist.

I have no education, training or experience that would enable me to offer superior information about the novel coronavirus. There are plenty of other sources out there to keep you updated about the virus crisis and how it may be solved.

What I can offer you, though, are my ideas about which direction things might be heading towards, and how to put these ideas to use on the stock market.

For full disclosure, I tend to veer on the side of optimism. Even in the current circumstances, I primarily notice the good stuff.

E.g., isn't it amazing to see how many things are still working despite the current circumstances? Your home still has light and heating. You can make telephone calls and use the Internet. Banks are open. Most critical supply chains are still working, and so is the postal system. All rumours that the stock market was going to close for several weeks have turned out to be just that – rumours.

Past generations who faced an apocalyptic crisis would have been envious of how most of us get to sit through this one from the comfort of our home, iPad in hand, sipping matcha tea.

Drinking tea is what I have been doing a lot lately.

What you have in front of you is primarily a stream of consciousness. I have not yet researched all of these individual topics in any depth and I'm not drilling deeply into specific stocks, either. While I do mention some stocks that are possible examples for these trends, I primarily look at trends more broadly. Where I mention specific companies, it is just to make the idea come alive. For yet others, I already have specific stock ideas that I have already researched to quite some extent, but I am not yet willing to reveal them just yet.

At this stage, this article should help you prepare your mind for what's to come.

Assuming we are entering a new era, then the next months (and years) will require you to leave behind some of your existing thought patterns, beliefs and convictions. That'll be challenging, and it can't be done overnight. However, in a situation where the world takes an unexpected major turn, it's crucial that you develop an ability to let go of the old and focus on the (likely) new.

Unless you keep an open mind and regularly expose yourself to information that challenges well-established beliefs, you might miss out on potential opportunities.

What is this new world going to look like?

Here is my attempt at pinpointing a few likely trends, focussing on the ones that investors can somehow benefit from, whether it's through concrete investments or (in two cases) through changing their own behaviour and approach.

This piece is divided into the following 13 topics:

#1: More consolidation, less competition for the survivors

#2: "Equity Fortresses" as a new asset class

#3: Regulatory speed as an indicator for promising investments

#4: Don't bet against America

#5: China has become a risky bet

#6: The EU unravels (slowly)

#7: Tech is the place to be ("Nasdaq over S&P")

#8: Healthcare (both online and offline)

#9: Remote work will grow exponentially

#10: Investments in national infrastructure

#11: Rural living (with fast WiFi) will get a boost

#12: National resilience as an investment theme

#13: Will we see a "debt jubilee"?

Enjoy!

And don't forget that you can contact me through my website (I reply to every email myself).

Best regards

Swen Lorenz
Undervalued-Shares.com

#1: More consolidation, less competition for the survivors

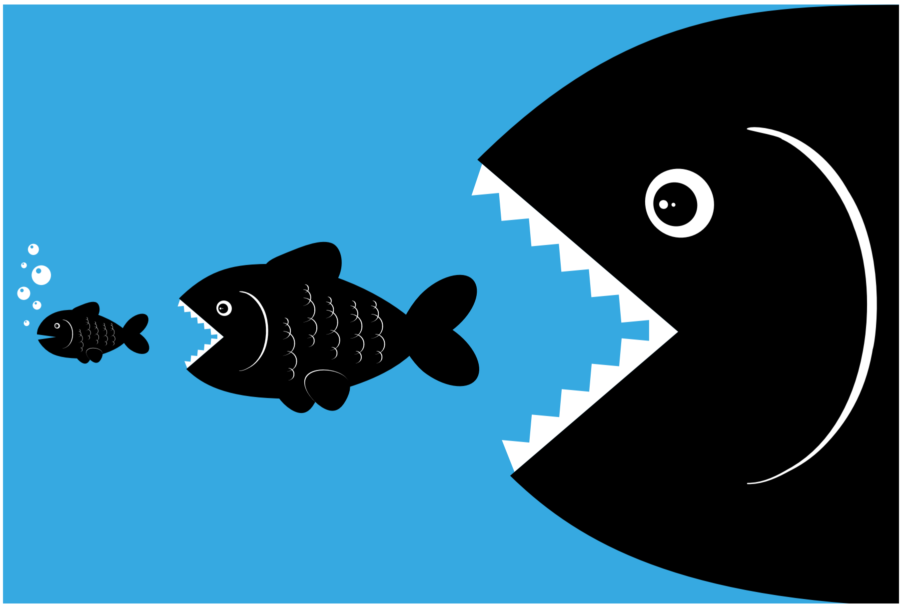
Can an old lady who runs a corner shop keep her business alive if she is forced to close down for two months?

Will Amazon be able to survive if it temporarily has to restrict the number of daily deliveries?

You've got your first (apparent) trend right there. Large numbers of smaller and medium-sized businesses will close down, either because the owner simply gives up or because of insolvency.

Their customers will be picked up by bigger, financially stronger operators.

Where this gets interesting are publicly listed companies that already have a strong market position and which will now be able to pick up smaller competitors for pennies on the dollar. The world economy will be restarted at some point, and demand for everyday services and products will come back. The survivors will have higher revenue and – crucially! – higher margins because of lessened competition.



Private enterprise will see a lot of Darwinian takeovers

Government support schemes will try to prevent this from happening, of course. Many large countries around the world have announced financial support for enterprises, but one has to be realistic about the outcome. **By the time this money has made it through the bureau-crazy (sic!), many of these businesses will have gone bust.** Smaller and medium-sized businesses won't have the manpower or know-how to apply for such schemes. Large companies, on the other hand, will let executives, lawyers, lobbyists and PR people off the leash. Much of these support schemes will turn out to be yet another form of corporate kleptocracy. The bigger companies will outcompete the smaller ones for government support, and probably receive a disproportionate amount of the support funds.

We'll see fewer, bigger companies. If you are a shareholder of them, you will see their revenues grow, and margins go up.

For the survivors, this could turn into a windfall.

Your investment opportunities:

- Companies that will grow even bigger and become even more profitable.

- Takeover bids for distressed, smaller companies.

- Take a second look at **IAG** (ES0177542018), the Spanish/British airline company whose stock is down by 60%. Back in January 2020, I explained how it would be the no. 1 beneficiary of consolidation among airlines in Europe. Little did I know that we were going to get the crisis of all crises, and that such consolidation might happen sooner rather than later.

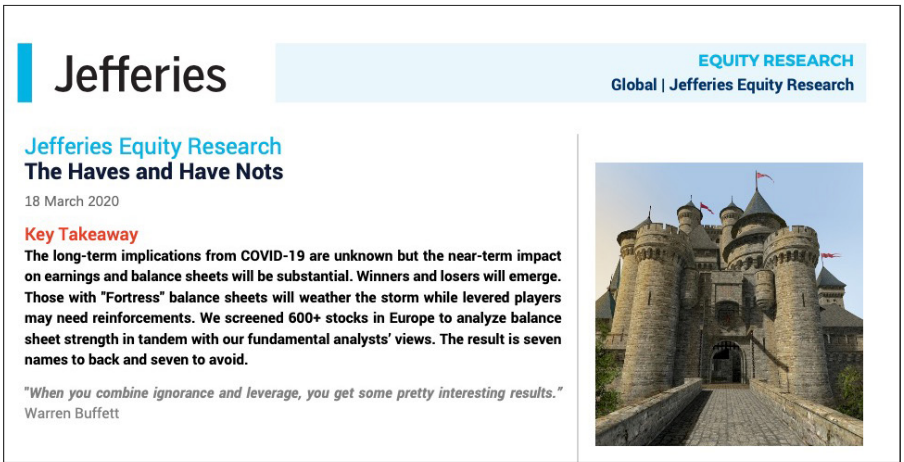
#2: "Equity Fortresses" as a new asset class

For any company, the only priority over the coming months will be survival. Everything else is secondary. If you get through this, the upside will take care of itself.

If a company has debt, its chances of survival are diminished.

On the other hand, if it is 100% funded with equity, it stands a much higher chance. Equity puts you in control of your destiny.

The coronavirus crisis is once again pressing home the importance of not being overleveraged, and it comes after ten years of companies binging on artificially cheap debt like never before. As such, it reminds me of the 1997 Asian crisis.



Jefferies

EQUITY RESEARCH
Global | Jefferies Equity Research

Jefferies Equity Research
The Haves and Have Nots
18 March 2020

Key Takeaway
The long-term implications from COVID-19 are unknown but the near-term impact on earnings and balance sheets will be substantial. Winners and losers will emerge. Those with "Fortress" balance sheets will weather the storm while levered players may need reinforcements. We screened 600+ stocks in Europe to analyze balance sheet strength in tandem with our fundamental analysts' views. The result is seven names to back and seven to avoid.

"When you combine ignorance and leverage, you get some pretty interesting results."
Warren Buffett

Jefferies scanned the globe for suitable "Equity Fortresses"

Up to that time, companies in Asian finance centres like Hong Kong had been all about using as much financial leverage as possible. What had worked greatly to their advantage during boom times quickly threatened to break their neck when things went south. Many didn't survive – those who did, learned their lesson.

Since then, a notable new trend has emerged in Asia. Many large companies, especially the countless family-owned ones, have shunned debt. They switched from maximising short-term success through leverage to maximising long-term success through slower but much more sustainable growth. They went from 10% equity and 90% debt to 90% equity and 10% debt. Or 80/20. But they certainly cut leverage to a point where it is easy to remain in control even when the going gets tough.

The coronavirus crisis is probably going to make an obsession with equity funding a more prominent trend in Europe and the US, too. It'll lead to what I am currently calling "Equity Fortresses" (better suggestions welcome). By that, I mean companies that feature the following:

- Low (if any) debt.
- Generous liquidity reserves, instead of blowing money on endless share buy-backs.
- A strong focus on risk management, and an openly demonstrated desire to be prepared for *any* financial Black Swan event. Screw short-term profit maximisation!

It's not a particularly original thought or a new one, but it will be reinforced by the current crisis. Share buy-backs, in particular, may well become seen as a toxic term. **The 2010s used to be all about share buy-backs, while the 2020s could see the other extreme (whether justified or not).**

There is already interesting new research that is pointing in this direction, including the comprehensive overview *"The Haves and Have Nots"* by Jefferies.

Its key takeaway:

"The long-term implications from COVID-19 are unknown but … winners and losers will emerge. Those with "Fortress" balance sheets will weather the storm while levered players may need reinforcements. We screened 600+ stocks in Europe and … the result is seven names to back and seven to avoid."

In case you are curious, Jefferies' top seven "Fortress" balance sheets are:

*"**Persimmon** (ISIN GB0006825383): Remains net cash even on cautious assumptions.*
***SAP** (ISIN DE0007164600): Leverage of 0.2x, high recurring revenues and S/4 Hana in full swing.*
***ABF** (ISIN GB0006731235): Attractive Primark opportunity backed by GBP 1.4bn of gross cash.*
***Puma** (ISIN DE0006969603): Net cash balance sheet comfortably absorbs weakness in China.*
***Straumann** (ISIN CH0012280076): Minimal debt, market leadership and demonstrable structural growth.*
***Inficon** (ISIN CH0011029946): Net cash and sole supplier of mission-critical products for EUV tools.*
***Spirent Communications** (ISIN GB0004726096): USD 183m of cash supports future investment in growth."*

This class of AAA-companies has already gained much in popularity after the Great Financial Crisis. They will do so even more once the coronavirus crisis subsides.

Of course, there will always be a good argument for the use of leverage. The counter-argument is that it'd be borderline criminal for companies to operate with net cash positions when global nominal interest rates are 0%. Running with some debt is good for the companies' Return on Equity (ROE). If a somewhat emotional flight to ultra-safe investments happens, it could lead to investments with higher leverage and higher ROEs trading at relatively more attractive valuations. But that may not matter to millions of investors who are primarily keen on creating a SAFE nest egg for themselves.

During a crash, *all* stocks suffer. Right now, you should sift through the rubble to find companies that are jewels (or equity fortresses), but whose stocks got hammered by the broad sell-off. These companies will recover, and strongly so because they'll be all the more in demand by investors.

Your investment opportunities:

- Companies with strong balance sheets at bombed-out prices.
- Even better if these also benefit from trend #1. Financially strong companies can afford to acquire weaker competitors!
- *"The Haves and Have Nots"* by Jefferies; contact me if you'd like to get a copy of the full list of 50 candidates.

#3: Regulatory speed as an indicator for promising investments

The speed at which companies are built in Silicon Valley is legendary. Thanks to the tech entrepreneurs from California, the question of how to build a company FAST is no longer a particularly original subject.

However, few investors in public companies consider which jurisdictions and regulatory regimes they should place their investments under to maximise their investment returns. That will change.

Right now, we are witnessing how emergencies make humans fast-forward historical processes. Decisions that would typically take years of deliberation are suddenly passed in a matter of hours. These emergency measures could lead to far-reaching changes how companies can operate and grow, at least in those countries that are now more aware of the issue and willing to change their outdated regulatory regimes.

Silicon Valley is the US' most famous example for moving fast. But it also has the probably most famous example for moving slowly on potential innovations and inventions: the Food and Drug Administration (FDA), which is often nicknamed the "Federal Delay Organisation".

Driven by "experts" who don't consider all the effects that take place outside of their field, and working in cahoots with the ever-growing government bureaucracy, the process to get a new drug approved in the US has become longer and more expensive over the past decades. Costs have rising from a few million dollars in the 1960s to over USD 2bn, all down to applying the highest degree of caution. We are now the civilisation that is mollycoddling and overprotecting children to such a degree that they grow up with deficient immune systems.

As someone once said: *"If the automobile didn't already exist, it would never be permitted today."* After all, cars cause 230 deaths in Europe alone EACH DAY. Globally, 1.3m die from car crashs every year. It'd be a lot of "BREAKING NEWS" and victim photos if newspapers and news websites treated these deaths the same way as they are treating coronavirus victims right now.

Israel has a reputation for innovation accelerated by an accommodating regulatory environment (skyline of Tel Aviv)

We have all just witnessed that things don't need to be like that. E.g., when a German company offered a new test showing if a patient was infected, the FDA (with pressure from above) managed to cut the review procedure from a minimum of six weeks to approving the application in just three hours. Also, following some pressure from Washington and the public, the FDA gave its approval for the use of hydroxy-chloroquine in treating coronavirus patients within days instead of years. The hydroxychloroquine affair could become THE subject on which basis a future debate will be started: *"Why can't we generally move a bit faster?"*

If you want to treat yourself to a fun overview how much of the Western world has lost its way to act fast and create success at lightning speed, read this blog post by one of the founders of Stripe (a multi-billion payment processor that rose out of nowhere and grew incredibly fast).

It's a long list of examples how, in the past, our Western societies were able to do things FAST.

For example:

- It only took 930 days to design and build the 747 Jumbo jet from scratch.

- The decision to build the Pentagon was made on a Thursday evening. Initial drawings were completed on Sunday. Construction started two months later, and it was finished within 491 days.

- The initial routes of the New York Subway and 28 stations were built in 4 years and 8 months. In comparison, London's new Elizabeth Line took three years just for planning, and it will have required 12 years of construction by the time it finally starts operating following several years of delays. That's despite the advances in machinery we have seen over the past 100 years!

The coronavirus crisis has already started to show the world's public that incredible advances can be achieved in record time, provided they are supported by agile authorities and decision-makers who wisely weigh all effects and don't allow themselves to be paralysed by fear.

We'll see a lot more of this coming shortly.

There are, of course, counterarguments. E.g., you could read this epically-long Politico article about the decades-long quest to rebuilt Penn Station in New York, if you wanted to hear valid arguments in favour of NOT having government decision processes move more quickly. Though at its heart, even this article probably provides conclusive evidence that the approach needs changing. How can one of the world's most important train stations be falling apart because of 40 years (!) of delays to investment decisions caused by muddled political processes?

The counter-movement is already underway, and it'll likely pick up speed.

Do you remember when the "X-Prize" was launched to reward the inventor of the first privately built, re-useable space ship? Today, the USD 10m X-Prize counts as a catalyst that helped launch the now booming private space sector.

We will shortly see another X-Prize launched by the same entrepreneur, futurist and author, Peter Diamandis, for a new kind of breathing apparatus that can be built quickly, reliably, and cheaply. It is geared towards saving the lives of coronavirus victims, especially in countries without good healthcare systems which can't afford expensive technology.

The West is currently in the second month of realising how bad the coronavirus crisis is. Our political leaders and entrepreneurs are mobilising every resource to enable private enterprise to contribute to solutions. Compare that to a country like China, where even in the third month the authorities were still primarily focussed on covering up the entire problem and stamping out the problem with sledgehammer methods.

Some countries will view the coronavirus crisis as a call to action to return to the old days of moving fast and flexibly. Others won't change their ways. For investors, watching this from afar and creating a list of attractive investment jurisdictions will be a hugely valuable exercise.

I know where I'd want to focus my future investments.

Your investment opportunities:

- Growth companies in countries that are actively and consciously dismantling their excessive bureaucracy. Countries that have recognised this already include the US and Israel, as the two most innovative economies in the world (based on the number of patent applications per capita). Separate mentions should go to South Korea, and possibly to Switzerland, Germany, Poland, and some of the Nordic countries. I'd love to hear about other countries that I should add to the list. I'll use the list to research specific companies for www.undervalued-shares.com.

UNDERVALUED SHARES

#4: Don't bet against America

Who do you think made the following statements?

1997: *"America stands out in innovation."*

2004: *"America always recovers."*

2009: *"America works."*

2013: *"It's a huge Advantage to be born in America."*

2016: *"America has never been greater."*

Of course, these are all quotes from Warren Buffett.

(Did you think for a second that it could have been from someone else?)

The world's most successful investor has always been a firm believer in America, Americans, and American capitalism. Yahoo compiled a list of Buffett's patriotic statements.

His mantra has always been: *"Don't bet against the United States."*

The coronavirus crisis will yet again lead investors to realise that the US remains the world's best market to be invested in for the long term.

Right now, we are seeing something that hasn't been witnessed in the US since the two World Wars.

The country's commander-in-chief has mobilised the entire production capacity of the world's largest economy to deal with the virus. It took a few twists and turns to get there. As Winston Churchill once said: *"You can always trust America to do the right thing, once it has tried out everything else."*

The White House has invoked the "Defence Production Act", through which the federal government can force companies to make products that are necessary for dealing with a national emergency. Merely invoking the act means that it never has to be used put to use, because companies will happily comply once they get as much as a nudge from the White House. The result is that the world's most agile, innovative and resource-rich economy is now working to overcome the coronavirus crisis.

Based on what I have seen and read so far, I'd even go a step further. **America will leave this crisis behind faster than many other major industrial nations:**

- The US already has the most mature public debate about how to reopen its economy in a phased approach when the time is right. Credit to the *New York Times* for publishing a seminal article on the subject, which went viral the world over and changed the course of public discourse on a global scale.

This influential article by the NYT kicked off a global debate

The New York Times

Opinion

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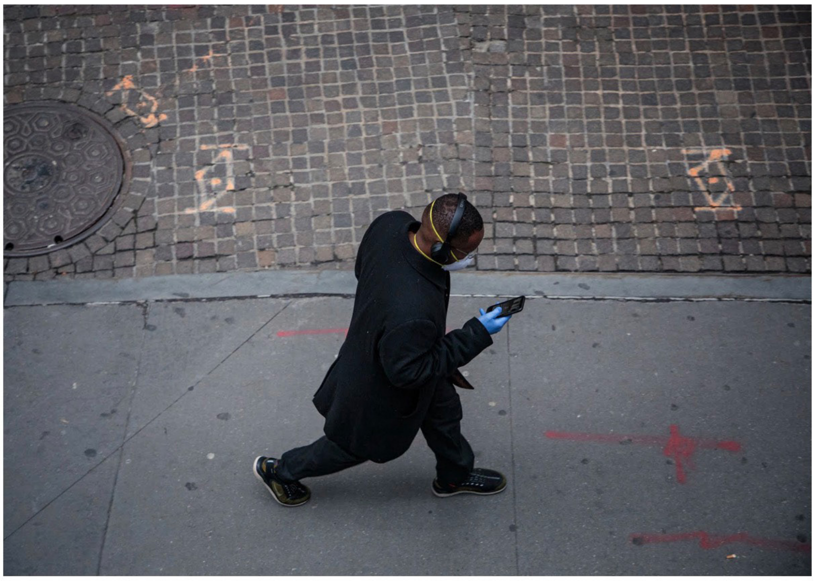
A Plan to Get America Back to Work

Some experts say it can be done in weeks, not months — and the economy and public health are at stake.

By Thomas L. Friedman
Opinion Columnist

March 22, 2020



Damon Winter/The New York Times

- The country has a few inherent advantages. E.g., most Americans have their own cars instead of relying on public transport. The country has diverse states (sunny/cold, sparsely populated/densely populated, etc) which have a good degree of autonomy but are united through a well-established federal government. Compare that to the patchwork of countries that make up Europe, and which can barely get anything done during the best of times.

- Trump's America is the most advanced country in breaking the culture of political correctness. Following nearly four years of pushback against "PC" culture from a growing number of key players, the country is already in a much better position to address difficult questions and move ahead – while many other countries are busy looking for a carpet under which to sweep problems. The influence of corporate media and career politicians is waning in the US, which will enable the country to get back on its feet much faster.

The US has always managed to find ways to improve itself in the midst of—and sometimes *because* of—the most difficult of challenges. It's not without reason that it's the world's largest economy and one that has already lifted the average GDP per citizen to a level that is 50% higher than the corresponding number for EU citizens. There are MASSIVE resources available in the US to deal with any challenge. It's the no. 1 most innovative economy in the world and as such ideally suited to deal with a new challenge.

Your investment opportunities:

- US securities, which will outperform the rest of the world during the current decade, though some sectors will perform more strongly than others (see #9, #10, #11, and #13). Currently, this is a minority view. Someone who heartily disagrees with me is the excellent investment blogger, Lyn Alden, who recently published several interesting articles in this regard.

- Publicly listed US companies that become part of the coronavirus solution, e.g. **Abbott Laboratories** (ISIN US0028241000) or **Johnson & Johnson** (ISIN US4781601046), both vaccine developers.

- Investment funds that are a bet on America, which could even be Buffett's **Berkshire Hathaway** (ISIN B shares US0846707026). My investment writer colleague Sven Carlin published an article about it recently.

#5: China has become a risky bet

It is very early days when it comes to assessing the impact of the coronavirus crisis on China.

Who'd be surprised, though, if the current crisis fundamentally changed the way the world interacted with the authoritarian communist country?

China's role as the source of the disease could be forgiven. Shit can happen anywhere. The West, too, has had its part in the unwise treatment of livestock, which then led to infectious disease in humans.

China's role in suppressing information about the threat, continuously lying, and trying to influence and manipulate the West's view? That's unforgivable. What's more, thanks to the Internet, China cannot cover up anymore how deceitful it acted. Even its use of submissive Western organisations and companies to further its propaganda aims, as is happening in the case of the World Health Organization and Twitter, can't be hidden anymore.

Up to now, the Communist Chinese Party (CCP) has gotten away with a lot. Western media never cared much about the internment camps for ethnic and religious minorities, for example. They had a blind spot for China's sins, and so did large parts of the public.

The coronavirus crisis hit home close enough for most people to care a lot more all of a sudden.

Some early indications of what could happen include:

- American businesses have launched the first class-action lawsuits against China, to make the country pay for its role in making the crisis much worse than it should have been. I'd expect this matter to become much bigger, and it could even be taken up by the US federal government as a country-to-country matter. There are already some reports about Italy considering to demand "war reparations" from China. China is very vulnerable to asset seizures, given how the country shipped hundreds of billions of dollars to more stable countries for investment and buying influence. I spoke to an international law firm about this before publishing this article. There is a huge battle brewing!

- The UK is now FINALLY rethinking its decision to have Chinese companies supply the 5G network.

- Will consumers increasingly aim to stay clear of Chinese products? A consumer-driven boycott of Chinese products could have a powerful effect on the export-dependent Chinese economy and the communist regime that it props up.

Make no mistake about it. The Chinese government has always been an evil regime that kills opponents (and even harvests their organs), locks away journalists, and lies pretty much whenever an official opens his or her mouth. (just recently, it kicked out journalists of the *Washington Post*, *Wall Street Journal*, and the *New York Times*).

Will parts of the world now rethink their supply chains?

Western media and politicians were long reluctant to address the issue, or even made conscious efforts to prevent it from becoming a subject of public debate. Many were in China's pockets, either through sweetheart deals or because most liberal journalists don't have the necessary education and awareness to recognise the evil of a Communist totalitarian regime. The public is just now becoming aware how the World Health Organization played down the coronavirus threat at the behest of China and against the advice of scientists from other nations. "Coincidentally", this was followed by China dropping a massive additional donation on the WHO. In the meantime, Oxford University has publicly dropped the WHO as a source for data about the coronavirus crisis for lack of credibility.

The world's attitude towards China, too, may now be changing irreversibly.

For any export-related investments in China, I'd currently apply a significant valuation discount. The country is now at a major risk of becoming an international pariah, similar to what South Africa was under apartheid. And it should, at least until the CCP is not in power anymore.

Your investment opportunities:

- Sell Chinese export companies to protect your portfolio.
- Buy non-Chinese companies that can pick up significant new business because customers will shun China.
- Co-investments in litigation efforts aimed at making China pay up for its role in the coronavirus crisis.
- Depending on how China acts and reacts, defence-related stocks might get back *en vogue*.

#6: The EU unravels (slowly)

As someone who has been an outspoken supporter of Brexit from day one, I do take a bit of *Schadenfreude* in watching what's happening on the other side of the Channel (which I can see from my upstairs windows – France is about 40 km / 25 miles from Sark).

During recent years, anyone who called for protecting borders and putting a country's citizens first was called all sorts of names. Most of them would not be fit to print.

Enter the coronavirus, and suddenly everything the EU claims to have stood for was revealed as the sham that I always said it was.

Germany during the 2015 migrant crisis: *"Borders cannot possibly be protected nowadays."*
Germany in February 2020: *"Closing borders is not a solution."*
Germany in March 2020: *"Close the f***** border!!!!!!"*

Germany even stopped medical supply deliveries that were already on a truck to Italy. The delivery was stopped at the German border and sent back, as the *Wall Street Journal* reported. German citizens first! Germany first! Angela Merkel has joined the ranks of economic nationalists.

In the face of an existential threat, the EU member states didn't join together to confront the pandemic as a unified bloc but instead returned to pursuing their national interests. Macron warned of "the death of Schengen". Italy's prime minister, Giuseppe Conte, said: *"If Europe does not rise to this unprecedented challenge, the whole European structure loses its raison d'être to the people."*

Once the public realised this was happening, the countries that are a key driver behind the EU started a hasty, laughable PR effort to cover their tracks. E.g., Germany agreed to take 47 (!) patients from Italy. 47 when Italy was already dealing with 30,000. Why not open the border and let all Italian patients in?

The public – and the world – have not failed to notice that European leaders have recently been openly reverting to the very nationalism that they have publicly claimed to despise.

The EU can now probably only go in one of either direction:

It's getting serious for the EU's survival

VOICE

The EU Is Abandoning Italy in Its Hour of Need

In a shameful abdication of responsibility, fellow countries in the European Union have failed to give medical assistance and supplies to Italy during an outbreak. China is filling the void.

THE CORONAVIRUS CRISIS

For Help On Coronavirus, Italy Turns To China, Russia And Cuba

March 25, 2020 · 1:18 PM ET

Italy demands solidarity from Germany, or EU 'will cease to exist'

European Union in 'mortal danger' because of divisions over virus crisis, says former Italian premier

WORLD NEWS MARCH 26, 2020 / 11:11 PM / 8 DAYS AGO

Macron told EU leaders 'survival of European project' at stake in virus crisis

- It unravels. Slowly, because Europe is all about kicking the can down the road.

- A closer political union will be forced upon countries, no matter what. As part of that, a fiscal union, introduced through the back-door, would be certain to happen. Watch out for "coronabonds" as a means to achieve de facto political and fiscal union.

While I don't know the outcome, I believe that Europe deserves some kind of valuation discount because its political risks are only increasing further.

Investment risk in certain parts of Europe will remain higher. These risks can also become opportunities if played the right way. It's a very messy situation.

Your investment opportunities:

- Pockets with "special situations", some of which might require some serious lateral thinking and asking hard questions. E.g., might Italy become a good investment destination because it'll have herd immunity sooner than other European countries? European markets are less transparent than the US, and there is less top-quality analyst talent (because the best people often move to the UK or the US where pay is better). Europe is probably the world's no. 1 market for overlooked opportunities.

- Within the general malaise of Europe, some high-quality companies will see their valuation dragged down too far. E.g., the Dutch investment holding, **Exor** (ISIN NL0012059018), has a war chest full of cash and is run by one of the best capital allocators in Europe, but its stock is down dramatically.

- Eastern Europe, a region where the influence of the EU has already waned and valuations are low (see also page 39 of my March 2020 report on Gazprom).

#7: Tech is the place to be ("Nasdaq over S&P")

I wanted to hide this one in the middle of my lengthy sermon. It's so apparent a trend (and unoriginal) that I hesitated to even include it.

Right now, EVERYONE is confident that teleconferencing will become the new commuting.

They probably are onto something. We already have augmented reality devices that allow you to take your office environment everywhere – all you need is a wearable computer or a pair of smart glasses. We are probably on the cusp of going full virtual reality, and then everybody can meet in cyberspace. Teleconferences will soon no longer be a tedious two-dimensional matter but could feel quite real.

That said, I'd be reluctant to go as far as calling the end of person-to-person meetings. Humans have a natural desire to be among other humans. However, remote services of all kinds are undoubtedly going to accelerate.

The demand for cloud-based services is likely going to experience a lasting boost. People who have tried out working from home and found that they like it may well change their life in such a way that the temporary fix becomes a permanent new way of life. Even if it includes first changing jobs, because not every employer will agree.

An ex-girlfriend emailed me from San Francisco: *"We will all be working from home soon. IT department going crazy – no idea if the systems will be able to withstand the number of remote users!"* Businesses are likely to raise their IT game, and both equipment manufacturers and software providers could see a surge in demand.

Among the industries that are currently seeing a massive acceleration in growth are even so-called "ghost kitchens", which are "remote kitchens" that focus on delivery-only. Who would have thought that tech-disintermediation comes to restaurant kitchens? The UBER founder, Travis Kalanick, is a prominent investor in the sector.

Also, video games and e-sports could now see accelerated growth (as if they weren't growing quickly enough already). It is notable how video games provide entertainment for a MUCH lower spend per hour than many other forms of entertainment (e.g. USD 0.10 as opposed to USD 0.50 for TV or USD 2 for movies). At a time when millions of people have to stay at home, cheap and location-independent entertainment could boom.

Remote-everything will get a lasting boost, no doubt.

Your investment opportunities:

- "Nasdaq over S&P" in the 2020s.

- 25 tech companies that are likely to benefit from the trend (list by Barron's): **Microsoft** (ISIN US5949181045), **Alphabet** (ISIN US02079K3059), **Amazon** (ISIN US0231351067), **Equinix** (ISIN US29444U7000), **Digital Realty Trust** (ISIN US2538681030), **CyrusOne** (ISIN US23283R1005), **CoreSite Realty** (ISIN US21870Q1058), **Netflix** (ISIN US64110L1061), **Walt Disney** (ISIN US2546871060), **Twitter** (ISIN US90184L1026), **Alibaba Group** (ISIN US01609W1027), **Advanced Micro Devices** (ISIN US0079031078), **Lam Research** (ISIN US5128071082), **Taiwan Semiconductor Manufacturing** (ISIN US8740391003), **Micron Technology** (ISIN US5951121038), **Applied Materials** (ISIN US0382221051), **Virtu Financial** (ISIN US9282541013), **Sony** (ISIN JP3435000009), **Zynga** (ISIN Zynga), **Take-Two Interactive Software** (ISIN US8740541094), **Electronic Arts** (ISIN US2855121099), **NetEase** (ISIN US64110W1027), **Tencent Holdings** (ISIN US88032Q1094), **Dell Technologies** (ISIN US24703L2025), **HP** (ISIN US40434L1052), **Charter Communications** (ISIN US16119P1084), **T-Mobile** (ISIN US8725901040), and **Sprint** (ISIN US85207U1051); and three more that are mentioned under #8.

- For information on video game companies and e-sports, follow Gavin Baker on Twitter. He recently published a thread with information about the sector.

#8: Healthcare (both online and offline)

Following 9/11, one of the significant societal conversations was about giving up privacy to help stop terrorism.

Following the current virus crisis, the equivalent conversation is likely about remote monitoring of an individual's health.

I never believed that the concept of privacy was going to survive the onset of the digital age. The vast majority of people will always prefer convenience (first and foremost), safety, and lower costs. Never mind if this means handing over all your data. The war on privacy was lost as long ago as the 1990s, possibly the 1980s even. It can't be reversed. Privacy is as dead as the proverbial dodo.

The only remaining question in our context is, how are you going to make money off the increased use of your personal data by service providers?

For all the obvious reasons, the coronavirus crisis will trigger massive investments in healthcare systems in general.

Telemedicine will only grow prominent in our lives

It will probably also become a tipping point for the idea of using personal data, smartphones and apps to monitor and improve your health. Governments will move into this area as an active stakeholder, using smartphones and apps to monitor and manage the coronavirus situation. Think of it what you will, but it's probably inevitable. You can manage your health, and your health will also be managed for you by Big Brother! Do you think you can refuse to play along? Well, if you don't agree to use the app, then governments will ensure that you will be denied lifesaving treatments in hospitals.

As the *Wall Street Journal* wrote on 27 March 2020:

"British officials, for example, hope to roll out a new smartphone app that will alert users who have come in contact with an infected individual, using location data drawn from GPS, Wi-Fi networks and even Bluetooth beacons. A separate app, developed by researchers outside of government, will map British infections and share information with officials. Its developers say the U.K. government can delete the data at some point and pledge not to publicize the movements of infected patients."

South Korea, Israel and the US are only a few of the countries that are working on similar initiatives.

As part of all this, the so-called "death panels" operated by bureaucrats are probably upon us. The recent triage-style operating of hospitals in some European countries is a clear sign that the era of governments deciding who gets lifesaving treatments and who doesn't is now upon us. The data in your app does not match up with a good survival chance? It's "Bye, bye" for you!

You can feel like a victim of an ever-increasing infringing of your privacy. Or you can embrace it and try to make money off it.

I'll do the latter. One of those coming weeks, I'll start to read up on the sector with a view to trying out some apps and using some other technology to help manage my health.

Your investment opportunities:

- Most pure-play telemedicine companies are privately held. One exception is **Teladoc Health** (ISIN US87918A1051), which allows users to connect with healthcare providers for online appointments. For at-risk patients who do not want to be unnecessarily exposed to diseases, digital doctor visits are a way to "go" to the doctor without leaving their home.

- Using such technologies yourself to reduce your healthcare costs and extend your lifespan as a "wellderly" person. This will also give you more time to benefit from compound interest on your investments!

#9: Remote work will grow exponentially

It's obvious and has been written about elsewhere.

I'd also urge caution, though. I have managed people in the past and based on my experience, I'd still expect that most people either do not want to work from home or are utterly unsuitable for working without immediate supervision.

Indeed, many companies are now realising that they can economise on office costs, and many people who will now have tasted the advantages of working from home. If they can't make it happen with their existing employer after the lockdown ends, they may change jobs to achieve a lifestyle change.

It is a trend that already existed and which will now be accelerated – if only temporarily. However, I believe it's massively exaggerated to expect that everyone and anyone will now want to work from home. Give it a few more weeks, and you'll see headlines about cabin fever, a lack of human contact, domestic violence, and projects going off the rails because the majority of employees are not self-motivated.

In between these two opposing developments, good money will be made by companies (and their investors) that can exploit the trend.

Your investment opportunities:

- **Zoom Video Communications** (ISIN US98980L1017) is the ONE company that every investor in the world will have recently heard about (although the stock is anything but undervalued following its recent meteoric rise). There are lesser-known candidates. E.g., **RingCentral** (ISIN US76680R2067) is in the business of selling cloud-based business communications software for workplace collaboration and customer support. **Citrix** (ISIN US1773761002) offers virtual-desktop technology that allows employees to securely access corporate programmes from any device anywhere. **DocuSign** (ISIN US2561631068) provides electronic signature technology and Digital Transaction Management services helped users of their platform assemble documents, secure data, and authenticate signees.

- Shorting owners of office properties. E.g., Carl Icahn is currently making huge bets on an office property bust.

#10: Investments in national infrastructure

Everyone has long known that the major economies of Western Europe and North America under-invested in infrastructure.

Third world airports and bumpy highways are an inconvenience, but they never made anyone rise up.

A lack of hospital beds and proper equipment during a deadly pandemic, however, should now get the entire subject to the fore.

Chamath Palihapiya, a former Facebook executive, billionaire and visionary venture capitalist, has recently published a podcast about the new investment themes he sees arising during the post-corona era.

Among his favoured areas are (surprisingly, given that he is a tech guy):

- Infrastructure.
- Highspeed trains.
- Aviation-related infrastructure.

You can listen to his 1-hour podcast if you are registered for Spotify.

Your investment opportunities:

- Unbeknownst to the wider public, Richard Branson is currently spear-heading a new passenger train network in the US, called **Brightline** (no ISIN yet). The company is currently privately owned, but it will likely go public eventually.

#11: Rural living (with fast WiFi) will get a boost

Everyone is suddenly talking about teleconferencing and working from home, but hardly anyone is talking (yet) about the likelihood of people deserting cities to move to the countryside.

The coronavirus crisis will likely accelerate a fledgling new trend that I believe would have grown in stature one way or another.

I believe that urbanisation is now reaching the end of its current cycle, and you will soon see people starting to move back to the countryside. I'd even go as far as saying that living in a city could become a sign that you are "stuck" behind and not economically independent. On the other hand, living in the countryside while having a successful career or business may well become a new status symbol.

In the past people moved to cities because they offered opportunities that you simply couldn't find in the countryside:

- More and better jobs.
- Easier access to goods and services.
- A vibrant social life.

Now that many jobs have become somewhat location-independent, being in a city becomes less relevant. A growing number of people will be able to work entirely remotely. Others will be able to work mostly from home and visit the city for occasional meetings only.

Access to goods and services is becoming ever easier for country folks, too. E.g. once we get deliveries by drones, delivery times will become quicker. There may yet be same-day Amazon delivery for places that are currently considered to be out in the sticks.

The entertainment provided by big cities will never fully move to the countryside. However, home entertainment is becoming more readily available. Who still goes to cinemas when there's Netflix?

Social media makes it easier to organise social occasions in more rural areas. You will never quite have the social diary that requires weeks of

Yes, it does come with fast WiFi (my home, the island of Sark)

planning for an evening out – as it does in London, for example. It's possible, though, that a growing number of people will view other aspects of social life as more important, such as knowing their local grocers who provide them with genuinely organic food. Also, social media offers the opportunity to more easily organise social occasions in less densely populated areas.

Rural life will never offer precisely the same as cities, but the two are converging in some aspects.

Throw in the obvious factors such as:

- Lower costs of living.
- Lower crime rates.
- Less traffic.

Never mind pandemics, and how these always thrive in big city environments. New York is currently responsible for almost a third of the total coronavirus cases in America. This isn't surprising, given that it is also the city with the lowest percentage of car ownership and the highest reliance on public transport. Also, nowhere else in the US is city-living more expensive per square metre (on par with San Francisco), which leaves people sharing cramped quarters. Why not swap all of it for a much bigger living space all for yourself, and have a garden on top of it?

There are endless possibilities. E.g., you could build a drone pod on your yard to make online deliveries easier. Never mind the longer-term potential of passenger drones. Maybe there'll be UBER drones to take you from your countryside house to the city for a theatre play, and back.

The coronavirus crisis is going to throw a spotlight on this trend. After all, the word "quarantine" originated in a large city. It was invented in 15th century Venice when boats had to be anchored outside of the harbour for 40 days ("quaranta") to ensure they didn't have the plague on board.

As I am sitting here in my oversized house in Sark with a lovely garden to look out on and fast Internet powering my work, life on a small island has never appeared more appealing to me.

Your investment opportunities:

- Move to Sark! As a self-governing jurisdiction that has no debt, its residents aren't likely to fall victim to the coming wave of additional taxes to pay for the fallout of the current crisis. Watch this space for details…

#12: National resilience as an investment theme

The coronavirus pandemic has exposed large-scale vulnerabilities in supply chains and national planning.

How will the world view those companies that are relying on parts delivered just-in-time from the other side of the world? Maybe that's a bit risky?

What about having your nation's food supply and medical equipment availability depend on the goodwill of foreign nations? Not so smart, it appears.

All of a sudden, sourcing domestically could appear to be safer, more sustainable, and even cheaper than to rely on goods from far-away destinations. Disruptions to the supply chain are expensive, which puts short-term savings from cheaper labour costs in a new light. If every six to eight years, we lose a year's worth of growth, maybe the pain that outsourcing to China entails is not really worth it?

The long-standing delusion that European citizens would see themselves first and foremost as "Europeans" rather than Germans, Danes or Italians, has also probably been dealt a deathblow by the coronavirus (see point #7). It's now each country's citizens first before anyone of the "brethren" is considered.

A country that has received a much better press recently is Switzerland (not surprisingly). As the *Financial Times* reported in a 27 March 2020 article titled "Swiss keep calm and rest on their months of stockpiles":

"In the Swiss city of Zurich, the only shortages in supermarkets have been of customers.

…

With between three and six months' worth of essential foodstuffs and goods kept in storage within the country's borders, Switzerland maintains one of the largest strategic stockpiles in the world.

…

Currently, Switzerland is sufficiently supplied with food and medicines. Switzerland's history and geography had ingrained strategic thinking about the country's supply chains over decades.

…

Switzerland is heavily dependent on imports for example between 40 and 50 per cent of food is imported — therefore maintaining reserves of certain goods is a very important precautionary measure. The system had been designed … to avert market failure in the event of unforeseen crises — such as the current pandemic.

Public confidence in the governments' competence is high, and few people feel the need to panic buy goods."

It's become apparent that for a country to survive and protect itself from global shocks like pandemics, it needs to have some degree of autarkic agricultural and manufacturing capabilities. China, in particular, is not a reliable industrial base and the costs, as well as risks, are now becoming apparent to everyone. Britain is right now reconsidering its decision to have China involved in its 5G network.

Never mind the issue of ensuring that your people will always have food on the table.

The questions that always interested me are the following:

- Will countries that emphasise national resilience achieve a higher investment return in the future? Might they have achieved better returns in the past?

- Are these countries likely to experience less economic and financial volatility?

- Could these countries become a separate asset class (just like the "BRIC" countries)?

Also, will there be one-off opportunities to make money when countries decide to bring more of their manufacturing back home? E.g., I do expect that a number of countries will now create cabinet positions around the idea of repatriating strategic manufacturing. How can we make money off that by investing in public markets? Equally, how to calculate and price-in the risk for those countries where that isn't done? If that was a justified approach?

Could so-called ESG investing become "Environmental, Social, Governance, and National Resilience" investing, i.e. ESGNR? We could end up with a similar development as the "LGB" movement, which became LGBT and then expanded to LGTBXYZ+.

There may be better terms, but you get the idea.

Your investment opportunities:

- European technology providers for the 5G network, e.g. **Nokia** (ISIN FI0009000681) and **Ericsson** (ISIN SE0000108656).
- Companies that make money off repatriating manufacturing (ideas welcome!).
- Higher valuation multiples for countries that show true national resilience. Similar to how ESG investing has recently driven up valuations for some sectors.

#13: Will we see a "debt jubilee"?

For as long as I can think back (the late 1980s), there has always been a cottage industry of doomsayers who predicted an imminent global financial collapse followed by a restructuring of sovereign debt. In a nutshell, they said that you had to buy gold to prevent your savings from becoming worthless.

Over the past 30 years, they were derided as conspiracy theorists, doom-mongers, and nutcases.

However, I already noticed this conversation changing during the past few years. In 2017, I sent an email to a friend expressing what I had found among German family offices: *"Everyone seems to believe that at SOME point in the future, we'll have a global wave of sovereign debt restructuring. No one knows when. But everyone is wondering how to secure their fortunes against the fallout. Are there some currencies that simply won't survive such developments? These questions are now asked widely."*

Fast-forward to March 2020, and such a development is now openly discussed as a distinct possibility. One well-informed financial expert I recently spoke to put the possibility for something of this nature happening at one third. Many others would agree, if not even place a higher chance on it. That's too high a probability to ignore it.

On 25 March 2020, Mario Draghi, the former head of the European Central Bank, published a remarkable opinion piece in the *Financial Times:*

"It is already clear that the answer (to the current crisis) must involve a significant increase in public debt. The loss of income incurred by the private sector — and any debt raised to fill the gap — must eventually be absorbed, wholly or in part, on to government balance sheets. Much higher public debt levels will become a permanent feature of our economies and will be accompanied by private debt cancellation."

Obviously, governments always operate on the basis of introducing one step after another (you do remember the story of the frog and the boiling water?). Once a private debt cancellation is agreed, it'll only be a small step to eventually agree something for sovereign debt. Or maybe we'll just see so much new money printed that we'll see a significant rise in inflation. If inflation went to 8%, 10% or even 20% p.a., the debt problem could quickly be taken care of in a matter of a few years. Just speak to Argentina about it, they'll be happy to provide their expertise.

Europe has broadly coalesced around the strategy that can best be summarised as: *"Freeze everything now and worry about the bill later."*

The US has followed suit. It had no other alternative because the US can't afford to have the dollar strengthen too much vis-à-vis the euro. The US export industry couldn't take it. Thus, the FED put the printing press in motion to follow the European example. It's now "unlimited QE", which is another way of saying "unlimited money". There has never been a time in history when "unlimited money" didn't lead to some kind of crisis involving the value of existing money.

Also, taxpayers of the countries affected by this will probably be squeezed like never before. E.g., Britain is now *en route* to increase its national debt to more than 100% of GDP, a level not seen since 1963. Someone will have to pay that bill.

Even as an optimist, I struggle to see how all this is going to end well.

A debt jubilee may just finally be on the horizon.

Your investment opportunities:

- Gold, which may get its moment in the sun.

- Real estate as a safe haven, in countries where you cannot be punished by taxes.

- Bitcoin, if it stands the test of time as a form of "digital gold for Millennials" (which is controversial).

- Guns, ammo, and a well-stocked wine cellar (in a rural area, see point #11).

- If you wanted to stay clear of doom-mongers and read what academics think about the issue, you could do worse than follow the Sovereign Debt section of Credit Slips, a blog written by 14 academics.

Conclusion

As Milan Kundeera, the Czech writer, once observed:

"Man proceeds in the fog. But when he looks back to judge people of the past, he sees no fog on their path. From his present, which was their far-away future, their path looks perfectly clear to him, good visibility all the way. Looking back, he sees the path, he sees the people proceeding, he sees their mistakes, but not the fog."

We are currently in that fog. We have never not been in a fog, but the fog currently looks and feels even denser than it usually is.

What is crystal clear, however, is the fact that governments around the world reacted surprisingly quickly once everyone realised that a grave situation was at hand. They are now in a "whatever it takes" mode of operating to reign in the coronavirus crisis:

- An unprecedented shutdown to slow down the immediate spread of the virus.
- Unlimited resources to develop permanent solutions, such as a vaccine.
- Unlimited helicopter-money to keep the economy from seizing up in the short term.

We will come out the other end, one way or another.

Following this tragedy, the survivors will eventually do what every society has always done. People will get on with their lives. That is just the cold, hard reality of the human spirit. It's also how, ultimately, markets work.

My expectation is that the stock market will go from bad… to less bad… to okay… to good… to great. I can't tell you how quickly this will happen, and what volatility we will see in between. But this crisis, too, shall pass.

Amidst the BREAKING NEWS that the media loves to announce in breathless fashion, I was heartened by the growing number of reports about real, important advances that are being made around the world to resolve this crisis.

Here is just a small selection of them, in no particular order:

- Abbott Laboratories launches molecular point-of-care test to detect novel coronavirus in as little as five minutes
- Coronavirus Vaccine: Johnson & Johnson Hoping To Have 'Hundreds Of Millions Of Doses' Of COVID-19 Vaccine By Next Year
- Dyson built a ventilator in just 10 days using its digital motor technology
- Owners of 3D printers answer NHS call to arms to produce thousands of visors to protect nurses and doctors treating coronavirus victims
- ResMed modifies factories, triples ventilator production
- Mercedes F1 team helps create breathing aid to keep coronavirus patients out of intensive care
- The ventilator challenge will test ingenuity to the limit
- Virgin Orbit plans to mass-produce new medical breathing device to help fight coronavirus pandemic
- Home coronavirus test for millions through Amazon

You could also marvel at the infographic provided by Visual Capitalist: "Every vaccine and treatment in development for COVID-19, so far".

Once the tide turns, you'll see the effect that rising stock prices always have on investors. The fear of losses starts will gradually be replaced by the fear of missing out on opportunities. The recent race to the bottom will be replaced by a better sense of proportion and calm consideration of actions. The recent panic-selling may yet go down in history as an inverse "tulip mania", as a friend called it on his LinkedIn feed.

For the period when things are looking brighter again, I hope the 14 ideas spelt out above will have provided a bit of inspiration and guidance for you.

Reader feedback is always welcome, through my online contact form or to my personal email address.

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