

# THE U.S. ECONOMY HAS BEEN EVOLVING FOR DECADES

## COVID-19 is Speeding the Process



April 17, 2020

As we move towards the recovery phase of this coronavirus shock, the world is going to look permanently different. A new normal will be established across business, industries, and households. Sheltering-in-Place is accelerating global economic trends that have been underway for decades, and our new reality puts certain adaptations into focus. The key investment takeaway here is that a number of companies stand to benefit from this shift. We see opportunity for long-term growth with companies that are building, servicing, and innovating to develop digital infrastructure.

Here, we will evaluate what behaviors and adaptations are accelerating across three major areas of our everyday life (**work, life** and **healthcare**), and where we see opportunity for companies to invest.

### WORK

While the global economy has been progressively moving to the cloud over the last couple of decades, COVID-19 has tested the workplace virtual and remote infrastructure. Many of us are passing the test, as about one-third of Americans are now capable of working from home. Best business practices that were once a “nice to have” are now a requirement. For example:

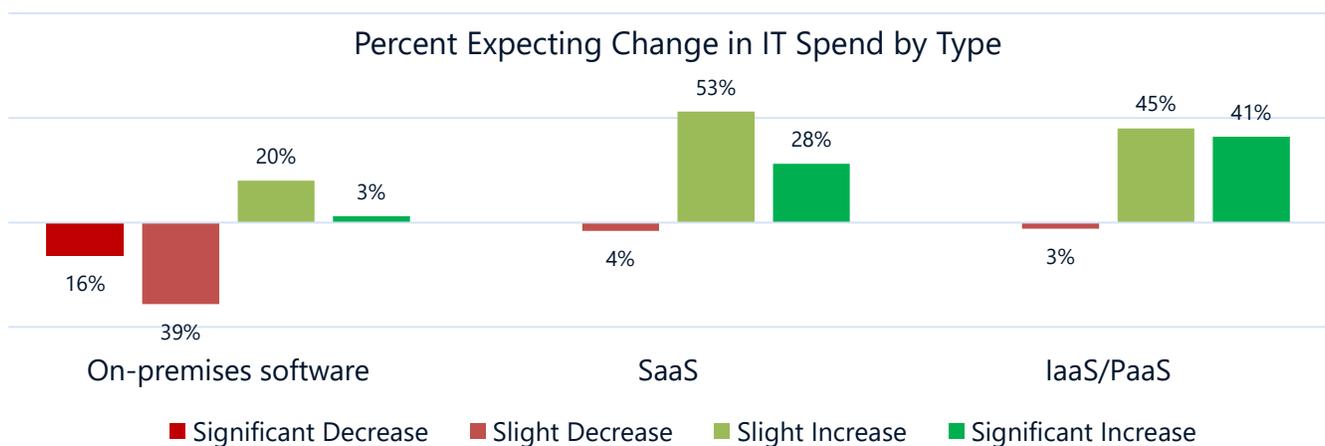
- Remote home office setup, including furniture, hardware and equipment is now required
- Amplified computing bandwidth for instant connectivity and task-processing without interruption
- Greater dependency on software to remotely access infrastructure
- Mass adoption of digital tools and unified communications (DocuSign, Zoom, Webex, CRM systems, etc.) to maintain business as usual activities
- Multi-channel approaches to maintain virtual engagement with employees and customers
- Cybersecurity protocol and business continuity plans are being implemented
- Cost reduction plans, such as expensive office space, product and service lines, and possibly headcount, are being considered

Almost every business in the developed world is experiencing some version of the above changes, and this list is by no means comprehensive. From an investment perspective, we examine those companies that are in position to capture where everyone else will inevitably need to spend. Three major areas where we expect companies to invest are:

1. Data Centers and Cloud Services, centralizing data storage and data transfer to a highly reliable infrastructure offsite. We project increased spending on bandwidth capacity, to enable phone, video, and data flow that is free of interruption.
2. Cybersecurity is paramount, as business and their clients need to feel safe in an increasingly virtual world.
3. Software and Enterprise Services to outsource additional functions and gain new tools, not only videoconferencing and office productivity, but marketing, human resources, and other non-core business functions.

In the chart below, we expect a drastic increase for 2020 in business spend on cloud services ("IaaS/PaaS and SaaS") versus an investment in on-premise software, which are tools that employees cannot access remotely.

### COMPANIES TO SPEND MORE ON CLOUD VS. ONSITE



SOURCE: Flexera 2020 State Of Tech Spend Report



## HOME

Home life (consumer America) is experiencing major changes in how we engage within the economy. Technology is increasingly bridging the gap in service delivery and product delivery while providing new ways for us to socialize and entertain ourselves. Adaptions include:

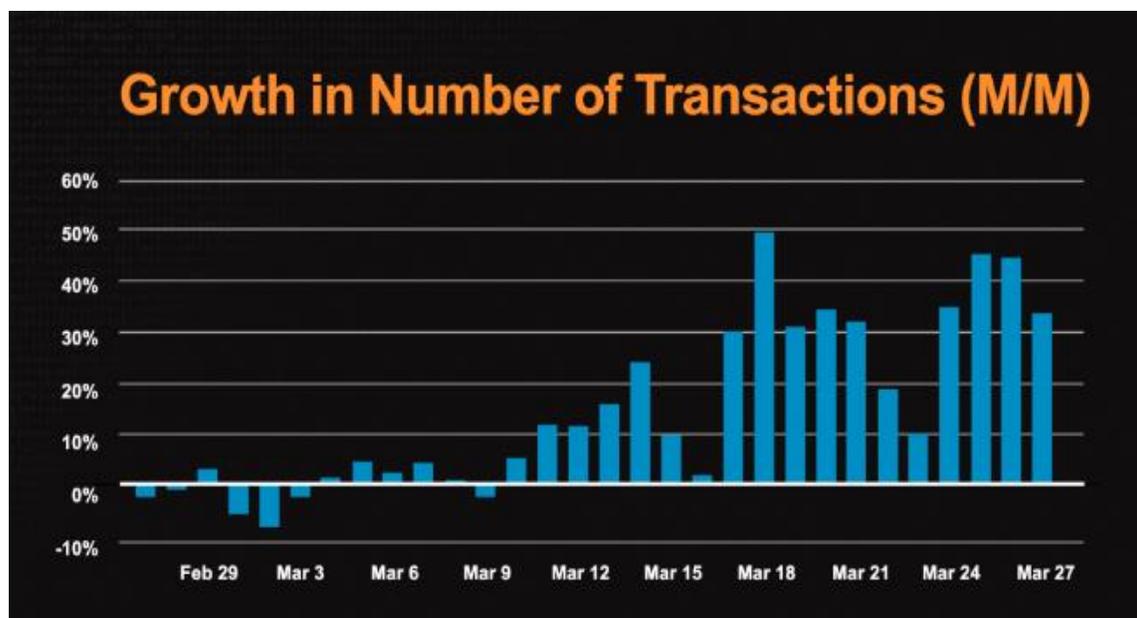
- Socialization and entertainment are heavily dependent on a virtual experience
- E-commerce is booming, and standard brick and mortar companies are expanding into an omni-channel approach (an integrated customer experience)
- Education has shifted to home schooling/web-based classes
- Home improvement spending is increased on energy, water, IT infrastructure and home improvement
- Accelerated decline in use of cash, which is being replaced by digital payment

While some of these are peaking as a result of lockdowns, it uncovers how households are fundamentally shifting their spending in the modern economy. Despite a rocky rollout in 2020, 5G networks will be foundational for effective delivery of every digital application across home and business. A larger percentage of monthly spend goes to broadband home internet service and generous personal wireless data plans. It also means new portable devices for kids (reduce sharing conflicts!), plus subscriptions to entertainment media, gaming, and music services. Social media (for better or worse) is also one of the most heavily used channels for news and daily interactions with friends and co-workers, and advertisers see increasing potential. Schools are closed, and educational technology has historically struggled with large-scale adoption. Many believe that the industry still has potential, and this crisis may be a tipping point and a test for long-term e-learning response systems.

Stay-at-home mandates are also pushing consumers to get their products in new ways. Shopping and research today increasingly begins online, followed by purchases made by phone, on apps, PC browsers, etc. With cashless payment processing, consumers don't need to be physically present. Some consumers are experiencing express home delivery for the first time and discovering its ease and convenience. For meals, groceries, or heavy items—which might not be suited to package delivery or returns—in-store pickups of your web-based purchase is another flexible model to expedite commerce. The pandemic has given many consumers the opportunity to try new methods of purchase and receipt, and studies show they are likely to repeat if the experience was seamless.

The chart below reveals a 30% growth in March for electronic transactions.

### E-COMMERCE TRANSACTIONS UP 30% IN MARCH



SOURCE: Clean Ingest Traffic from Akamai Prolexic

## HEALTHCARE

Finally—and most relevant to this moment in human history—is the digital economy's impact on healthcare. As we have all witnessed, the healthcare sector is at capacity. Centralized, bureaucratic healthcare infrastructure was not set up to handle a pandemic of this magnitude. It is imperative that we set up a system to distribute and further digitize the delivery of health information and medical services:



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- Tele-health has proved invaluable, permitting low-level consultations by video and mitigating the need for patients to visit overcrowded and contaminated medical locations.
  - Sharing of patient medical history and data between health institutions is critical. Paper records transfer is no longer adequate—it is time for standardized electronic health records, where doctors can get up to speed on patients with one tap of the finger.
  - The application of data analysis and artificial intelligence should have the ability to save lives and dollars. When it comes to the COVID-19 pandemic, the faster we can evaluate new testing methods, spot trends in the migration and evolution of the virus, and test new treatments – the more people we can save, the less stress we will put on healthcare infrastructure, and faster we can get back to work.

## CONCLUSION

In our view, it is clear that American business and everyday life leans heavily on digital infrastructure. The current COVID-19 global pandemic—and the economic restrictions that came with it—have made this reality more apparent than ever. If a company, sector, or industry wants to survive long-term, it must migrate operations to the cloud and enable business to function no matter what the conditions on the ground. The companies that are building, servicing, and innovating within the digital economy are obvious growth stories. But every sector across the economy is today facing the same reality: speed up your ability to conduct business under any circumstance or face the possibility of having any exogenous shock become an existential threat.

All of this suggests to us that it remains intelligent to focus investments on long-term growth trends and be guided by professional advice. Today's short-term volatility will eventually subside and investors who can stay focused will emerge better off.

While we watch hopefully for improving conditions in controlling the Coronavirus, and for a recovering economy, all of us at Ashfield wish you and your family good health and safety. As always, we would like to hear your views on the subject and welcome a **virtual** discussion.

Sincerely,

**ASHFIELD CAPITAL PARTNERS, LLC**



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