COVID-19 – FIVE YEARS ON

11/03/2025 | RAPHAËL GALLARDO, KEVIN THOZET, LLOYD MCALLISTER

*On **11 March 2020,** the World Health Organisation declared Covid-19 a global pandemic. Five years on, three Carmignac experts look at the legacy for economies, financial markets and sustainable investing.*

ECONOMIC IMPACT

- **Permanent loss of global GDP**Covid-19 caused an irreversible decline in global GDP of around 3%[1] due to permanent losses in human and social capital from deaths, missed educational and skill opportunities, and bankruptcies.
- **Gap between developing and developed markets**Developing countries were severely impacted due to the lack of fiscal and monetary buffers. Whereas strong policy responses in developed markets mitigated some long-term economic damage by nationalising private sector credit risk. Firms could focus on digitalisation, ushering in new avenues of productivity gains.
- **The return of inflation**The excess liquidity injected into Western economies through fiscal channels led to a sharp rise in goods and services inflation. This outburst shook central banks' views on the transitory nature of supply-side shocks and left the Fed struggling with inflation targets post-reopening.
- **Unravelling of Pax Americana**The pandemic exposed the vulnerabilities of hyper-globalised supply chains and sparked geopolitical tensions. The crisis accelerated the shift from Pax Americana to a more discordant multipolar world.
- **Fiscal dominance and discontent**The credibility of elites was diminished, while government-funded income transfers expanded the acceptable range of economic responses, leading to fiscal and monetary policy coordination that - in the context of rising national debt - risks fiscal dominance and further inflation. Wealth disparities were amplified fostering social frustration, which populists exploited to advocate for more fiscal measures, risking even more inflation.

FINANCIAL MARKET IMPACT

- **The consumer pendulum**The shift from lockdown restrictions to revenge spending led to significant revenue fluctuations for companies. Hopes that revenue growth would remain in high-single to low-double digits gradually ebbed. One area where consumer habits have been more profoundly transformed is the shift from goods to services along with the economy rising. This change was further amplified by inflation. The contrast between auto manufacturers, who now face reduced demand and increased competition, and cruise lines, which are enjoying a temporary surge due to limited capacity expansion, highlights this transformation.
- **Turbocharged digitalisation**The pandemic accelerated digitalisation across various sectors benefiting companies like Microsoft, Apple, and Alphabet reached - and maintained - market capitalisations exceeding $2 trillion. The global IT spend has surged from $4 trillion in 2019 to over $5 trillion anticipated for this year[2]. The explosion in data use certainly accelerated things on the AI front and subsequent integration across sectors, leading to operational challenges but also significant advancements.

- **Defaults return**After a period of low default rates thanks to government support during the pandemic, delinquency rates have risen steadily. Despite the challenges faced by companies in sectors such as real estate and testing labs, defaults are compatible with long-term growth. Credit markets currently offer attractive yields but require careful consideration of refinancing risks and supply chain issues.
- **The business cycle is back**As central banks adopted restrictive policies to combat inflation, the business cycle surged back, affecting asset prices. With increased volatility in equity-bond correlations since 2021, investors now need to more diligently assess portfolio diversification and anticipate economic shifts.

SUSTAINABLE INVESTMENT IMPACT

- **Net negative environmental impact**Images of clean air and water environments during the pandemic led to a belief that lockdowns were beneficial for the environment, but the overall environmental impact of Covid-19 was negative. Temporary improvements in air, noise, and water pollution were relatively small and overshadowed by increased single-use plastic waste disposal.
- **Improved pandemic preparedness**While modern governance, science, and technology limited the death toll of Covid-19 compared to historical pandemics, post-pandemic inquiries identified failures in preparation, international coordination, and infection control. Despite improvements, epidemiologists and virologists predict the next major pandemic will be airborne and likely occur in the next 5 to 25 years, with increasing risk due to temperature changes and extreme weather.
- **The rise of system stewardship**The global GDP drop highlighted the importance of 'system' stewardship, as the value of companies at a portfolio level can surpass their individual enterprise value, exemplified by biotech shareholders whose economic interest in Covid-19 vaccines significantly impacted the broader economy. This perspective is now applied to issues like antimicrobial resistance and climate change, whereby companies are assessed based on systemic risks and overall portfolio returns rather than individual profits.
- **ESG investing matured**The pandemic coincided with a boom in sustainable investment, highlighted by the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in Europe. The importance of Article 8 and 9 funds, which consider ESG issues alongside financial factors more explicitly, grew significantly.

[1]World Bank, January 2025.

[2]Forrester: Global Tech Spend To Grow 5.3% In 2024, Reaching $4.7 Trillion - Forrester, Gartner Forecasts Worldwide IT Spending to Grow 9.3% in 2025.