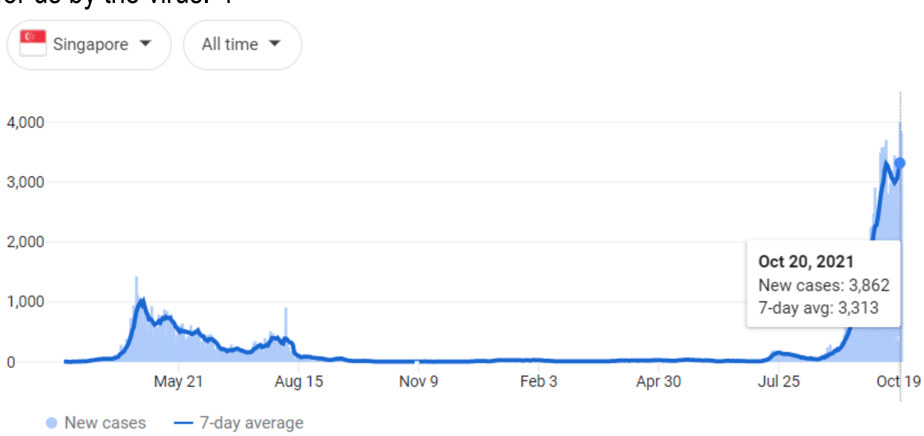
Early in 2021 as the world raced to vaccinate, expectations for a relief-inducing return to normal were high. President Biden triumphantly predicted July 4th celebrations at which the nation's birth date could double up to celebrate the end of the pandemic. Well, the grand reopening was unceremoniously interrupted by the resurgence of the virus. It now appears the Delta variant peaked in late August or early September. Like in the early COVID days, concerns with overwhelming hospital capacity led to a new round of restrictions and pleas for vaccinations. While Delta deferred the return to normal, few countries reimposed the draconian lockdowns of 2020. In the U.S., the variant acted more like a governor on an accelerator than an inhibitor of business. However, the reopening experience exposed the world to a variety of anomalies that had been rightfully attributed to the pandemic and therefore expected to correct once we approached immunity. Maybe some of those assumptions should be revisited.

The Virus

While the COVID vaccines, with their speedy development and novel technology, have to be considered a resounding success, the evolution and spread of a virulent relative of the original virus suggests health hazards may become a more common feature of our lives. The world has dealt with the flu for generations, but the COVID-19 experience may be telling us we need to prepare for more deadly and infectious variants in the future.

Many Asian countries pursued a "zero Covid policy" meaning they intended to eradicate the virus by preventing all contagion. Along with strict mobility and assembly restrictions, the countries mounted aggressive vaccination programs and limited foreign travel. Singapore, an island nation, seemed to have achieved the ultimate success, nearing zero cases by the fall of 2020. Furthermore, by September 2021, the country had vaccinated nearly 80% of its people and started loosening restrictions. Suddenly, the Delta variant showed up, infections exploded, and hospitals began to get stressed. Daily cases exceeded 3,000 in early October and the surge already killed more people than the original virus in all of 2020. Just recently, Singapore decided it would abandon its zero policy and learn to live with the virus. A Bloomberg article on Singapore's experience quoted infectious diseases expert Ooi Eng Eong, "That Covid-19 will become endemic throughout the world, as it has in several countries, is a foregone conclusion." And further on living with the pathogen "is not our choice, but one that has been decided for us by the virus."[1]



Source: Singapore COVID-19 Data from John Hopkins University Center for Systems Science and Engineering Data. As of October 20, 2021

[1] "Transition to Living with Covid Sparks Division in Singapore," by Michelle Fay Cortez, Faris Mokhtar, and Low De Wei, Bloomberg News, October 14, 2021.

This does not mean we will live forever in a "stop-start" world. The successful mitigation of the virulence from vaccinations suggests infections may ebb and flow with mortality likely diminishing. It also means, however, that businesses, schools and families will have to adapt to this undesirable impediment. Examples for the near-term future have already been spelled out by companies rescheduling office returns and others implementing hybrid work models. While this will have implications for productivity and employee development, a group that may be permanently impacted is the commercial real estate owners.

Supply Chains

Highlighting Asia's Covid plight, on October 13, 2021, the New York Post ran an article titled "Global Scarcity Crisis" with the following opening paragraph, "A perfect storm of events is leading to snarled shipping lanes on the high seas – and could mean empty stockings this Christmas."[2i] The great supply chain disruption started shortly after the lockdowns began. Initially, lockdowns and social distancing prevented shippers from operating at normal capacity and ports were forced to slow their processes. Soon enough shortages of labor took capacity offline and then the splurge in demand for goods put the global logistics infrastructure entirely out of sync. An early manifestation of the problem occurred with semiconductor chip shortages which affected auto and appliance manufacturing. Then, other shortages became common, and manufacturers had to go to extraordinary lengths to try to fill orders, including chartering ships, seeking new suppliers and turning customers away.

As the reopening moved along in the west, the jams seemed to get worse. Despite early success combating the virus, China's, and other trading nations' battle with the new variants exacerbated the problems. "At the heart of the global gridlock is China, the world's largest trading nation. Arriving ships often must quarantine for a week or more before they are allowed to dock. Disruptions to customs and port services add to delays. The more ships wait on the inbound side at Chinese ports, the longer it takes for them to start out again from China to the rest of the world, waiting for Chinese-made electronics, clothing, and toys."[3] Not surprisingly, shipping rates have skyrocketed and prices of goods have continued to rise.

Source: WSJ October 8, 2021

Many economists expect the price effects and manufacturing deferrals associated with the supply-chain mess to ease as the virus-related impediments fade. Others anticipate a meaningful shift in consumer demand away from goods to services which will ease the order backlog and gradually balance seaborne trade. We think both scenarios are likely, although it will probably take much longer than expected because while transport capacity has been restored to pre-pandemic levels, port limitations continue to hinder the smooth unloading of ships. In fact, the average shipping

[2] "Global Scarcity Crisis," by Lisa Fickensher, New York Post, October 13, 2021.

[3] "Global Supply-Chain Problems Escalate, Threatening Economic Recovery," by Chuin-Wei Yap, William Boston, and Alistair MacDonald, The Wall Street Journal, October 8, 2021.

time for goods has increased from 41 to 70 days and the estimates indicate 8 million twenty-foot equivalent units (TEU), about a third of total capacity is waiting to dock. Efforts have been made to ease the logjams, but like all businesses, transportation and logistics companies face labor shortages and there are no indications employees will favor them over others.

Inflation

As the pandemic blanketed the world, monetary and fiscal authorities sprang into action. In the U.S., Covid related federal government programs exceeded $5 trillion and the Fed's balance sheet expanded by a similar amount. Year-over-year money supply growth through mid-2021 exceeded 25%, more than any year over the last half century. Europe enacted many of its own programs and other nations did what they could within their budgetary limitations. In all, the world was showered with nearly $10 trillion in fiscal stimulus much of it funded by central banks. This massive infusion of resources helped keep most economies from collapsing, although these extraordinary actions have a cost.

Visible beneficiaries of government largess have been the world's financial markets, creditworthy borrowers and many private sector companies. Even service entities affected by the pandemic were able to stay afloat by accessing concessionary loans. Individuals who benefited from furlough schemes, generous unemployment benefits and rent deferrals were able to save money or reorient purchases toward consumer products and other necessities. In addition, for those with jobs, lessened expenditures on travel, leisure and entertainment enabled an accumulation of personal savings. Altogether, the distortions altered behaviors and created a liquidity pool that will likely be spent in some manner over the next few years.

September's U.S. Consumer Price Index (CPI) was 5.4% higher over the last twelve months, the highest annual increase since 2008. Many economists believe inflation is transitory because it has been triggered by temporary disruptions caused by the pandemic. Indeed, emergency measures may be withdrawn, health related restrictions tempered, and leisure venues reopened. A problem is that changes in human behavior may be hard to reverse. Homeowners waiting for appliances or furniture may begin to order more and early. Consumers missing their favorite products may begin to hoard what they can find. These attitudes create a different mentality about both the availability and prices of goods. With supply chain woes, companies may also find it preferrable to produce fewer products at higher prices.

We believe the pandemic-related distortions to both the global economy and people's lives have lasted long enough to have a more indelible impact on behavior than generally perceived. As if emphasizing this observation, various regions of the world, including China, the UK and Brazil have suffered electricity shortages due to factors like weather, the virus and policy shifts away from hydrocarbons. Natural gas prices jumped, oil reached the highest levels in seven years and nations scrambled to secure supplies of these and coal. Despite the gradual transition away from hydrocarbons, reliability remains a priority everywhere. Even China, which had begun to move away from coal, was forced to reopen mines and allow generators freedom to broaden fuel choices for generation. In a September 30 news article Bloomberg wrote: "China's central government officials ordered the country's top state-owned energy companies -- from coal to electricity and oil -- to secure supplies for this winter at all costs, according to people familiar with the matter."[4] Hydrocarbons remain an essential fuel for electricity

[4] "China Orders Top Energy Firms to Secure Supplies at All Costs," by Isis Almeida and Jack Wittels, Bloomberg News, September 30, 2021.

generation, transportation, and the production of many critical products. Even when we sort out some of the supply-chain related product shortages and price pressures, the supply-demand dynamics for oil do not currently point to a straightforward unintrusive solution.

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GIA Partners, LLC

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