

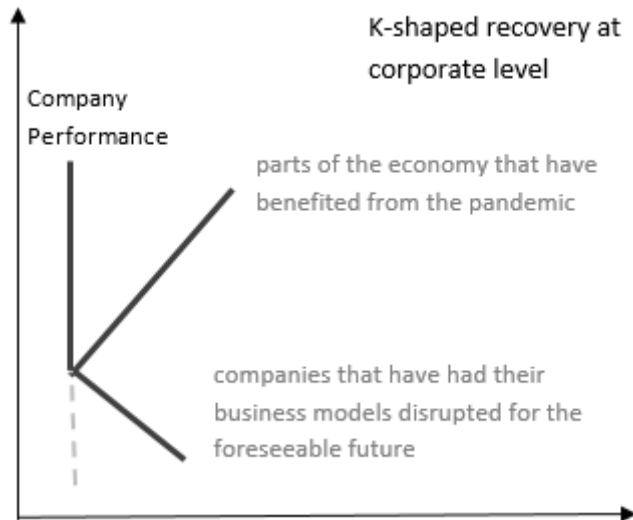
January 30, 2021

The K-Shaped Recovery



At her confirmation hearing as US Treasury Secretary, Janet Yellen discussed a K-shaped economy, one where existing wealth allows people to build more wealth, while others fall further and further behind. Ms. Yellen was referring to American households, but the same idea can be applied to the corporate world, where a K-shaped recovery is in motion.

The upward slope of the “K” represents the clear winners during the pandemic; big tech, delivery services and logistics firms, online retailing and entertainment names, AI and robo developers... The downward slope of the “K” symbolizes those businesses directly affected by Covid-19, such as hospitality and airlines. As long as preventative measures ensue, the service sector (which often constitutes face-to-face interaction), will continue to lag behind.



But even once the health crisis subsides, it is not a given that the two legs of the “K” will converge. Covid-19 has permanently altered the landscape and future success will largely depend on the extent to which a firm embraces the digital revolution and its ability to operate with agility.

When it comes to digitalisation, the genie is out the bottle. Digital-first business models were already on an upward trajectory when the pandemic hit and now, the structural shift towards a more digitalized society has been fast-forwarded. Trends such as online shopping, teleworking and eLearning, will stick, even when “stay at home” orders are lifted.



Firms with a strong foothold in digitalisation will continue to have the odds twisted in their favour. This does not refer to high-flying tech names per se, in fact, almost every business today is (or should be striving to be) a tech business – this may entail robotic process automation, AI fed on big data that can anticipate future needs, or pursuing sales on unconventional channels such as Instagram shop... In recognizing this, even some of the most conservative industries had to break with the past, shifting themselves online last year. For example, the luxury watchmaker Patek Philippe finally allowed its distributors to sell over the internet and Geneva's Watches & Wonders show was hosted online.

The dominance of digital model was highlighted recently with the announcement that pure online retailers plan to buy what were once flagship chains of the British high street: Topshop (alongside other brands in the Arcadia group) and Debenhams.

Traversing the upwards slope of the "K" will be difficult for firms who are unwilling to adapt to the new reality ushered in by the health crisis, while those who have already done so are well-poised for the incoming impetus the roll-out of 5G will give to the trend of digitalisation.

In order to ride the upwards slope of the "K" firms also have to be agile. This means using big data and analytics to identify opportunities in real time. A good example of this is the disruptive cab service -Uber. Amidst mass lockdowns, demand for taxis was naturally thin on the ground. However, the company quickly refocused on its Uber Eats food delivery business which of course was in high demand. Chameleon companies who can shift their strengths to meet the altered needs and demands of consumers also have a better chance of making it up the "K".

In school, the letter "K" was called a "Kicking K" to differentiate it from its phonetic cousin – the "Curly C". To avoid getting kicked by the "K", companies must apply an agile, tech-led strategy. To identify the potential winners that are doing so, entails a highly selective investment process, whereby we look past sectors, down into each firms cogs to judge how it is poised on these parameters. Further, this does not automatically point to an IT overweight; every sector can reap the benefits of digitalisation.

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