Investment Insights
Tracking the Reopening

Bree Sterne
Investment Strategist

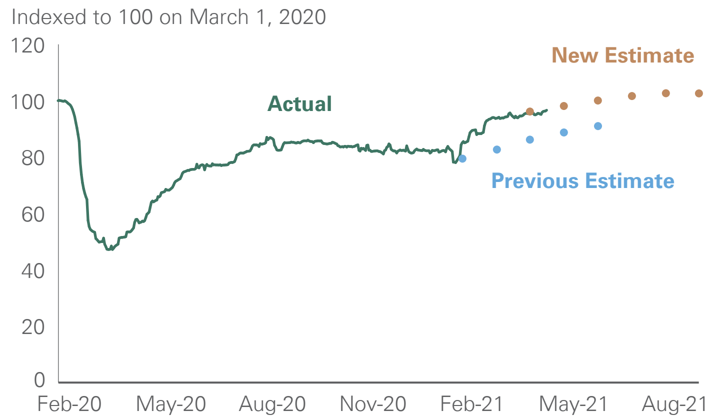
Highlights

- With the vaccine rollout well underway, COVID-19 cases are declining, restrictions are easing, and the U.S. economic reopening is accelerating.
- High-frequency data show surging activity and support a positive outlook for the U.S. economic recovery underpinned by pent-up demand, consumer strength, and fiscal stimulus.
- Still, regional disparities remain, both within the U.S. and across the globe, as some developed countries are lagging, and several emerging markets are struggling with additional COVID-19 outbreaks.

With more than 50% of U.S. adults now fully vaccinated, restrictions are easing, and people are increasingly resuming more pre-pandemic activities, contributing to a booming U.S. economy. While the pace of reopening is uneven across the nation, high-frequency data indicates that the pandemic tide has finally turned in the U.S. even as some other developed countries lag and several emerging markets continue to struggle with COVID-19 outbreaks.

We created the proprietary Bessemer Reopening Index (BRI) to better monitor reopening progress in close to real time over the past year. The BRI is comprised of several high-frequency data points within the mobility, travel, consumption, employment, housing, and industrial categories. Over recent weeks we have witnessed a sharp pickup in activity as a meaningful percentage of people received vaccinations and behavior changed rapidly as a result. In fact, return-to-normal data points accelerated even more quickly than we had expected at the start of the year (Exhibit 1).

Exhibit 1: Bessemer Reopening Index Shows Reopening Activity Accelerating



Source: Apple, Bank of America, Bessemer Trust, Bloomberg, FlightRadar24, OpenTable, STR, TSA, U.S. Bureau of Labor Statistics, Womply

High-Frequency Data Shows Economic Reopening

As COVID-19 cases, hospitalizations, and deaths continue to decline, activity has surged in the U.S. Data points are now surpassing the elevated levels we saw last summer and making new pandemic highs across the board (see Exhibit 2 on page 2). Overall, U.S. mobility trends have rebounded to pre-COVID levels. Credit card transaction data reveals the strength of the consumer driving the economy as excess savings and fiscal stimulus translate into additional consumption growth.

The inflection upward in reopening data is especially notable in the COVID-19-sensitive segments of the U.S. economy; workplace, travel, and restaurant metrics are reaching new post-pandemic highs. Kastle Systems office visit data has turned up sharply over the past weeks, indicating an increased number of employees are returning to their workplaces. After bottoming at 15% of pre-COVID-19 levels in March 2020, workplace occupancy is now roughly 30% relative to pre-COVID-19, on average.

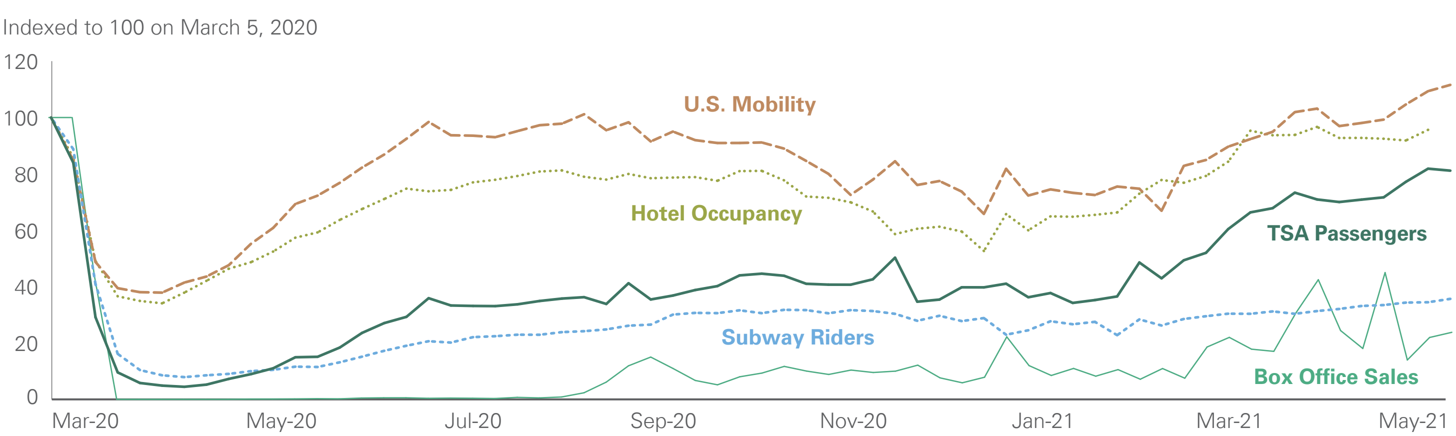
Subway ridership in New York City surpassed two million passengers for the first time since the pandemic shut down the city in March 2020. While still not the five million-plus riders that the subway system saw before the pandemic, it is a lot higher than the 300,000 riders last spring. Even though some consumers are still not ready for public transit, they are not staying at home. In addition to recent pipeline supply constraints, the lingering pandemic preference for private vehicles over public transit has helped push up gasoline costs as more drivers hit the road. In May 2021, Apple mobility for U.S. driving was recorded at 140% of pre-pandemic January 2020 levels. While the vast majority of the upward move can be attributed to reopening, mobility data has also been boosted by seasonality trends as the summer months typically see increased levels of mobility.

After a year of staying home, pent-up travel demand is clear. Hotel occupancy levels are now nearly back to 2019 rates, and air travel has increased substantially since vaccination rates picked up in February. TSA passenger throughput most recently totaled 1.8 million people, the highest number since March 2020, though still roughly 30% below the equivalent day in 2019. In the past few weeks, airlines have seen the strongest flight bookings since the beginning of the pandemic, and accordingly, they have expanded their schedules in anticipation of increased traffic. American Airlines and Southwest Airlines, for example, have both said capacity is approaching 100% of 2019 levels.

Despite regional differences, dining activity remains in a steady uptrend with OpenTable restaurant reservations are nearly back to 2019 bookings levels (see Exhibit 3). Some parts of the country, including Denver, Las Vegas, and Houston, are now above pre-COVID-19 numbers while some other areas, such as New York City and San Francisco, are recovering but at a slower pace. Bank of America credit card spending has also moved into positive territory relative to March 2019, though regional differences remain with spending still flat to negative in New York and California but increasing at double-digit rates in Florida and Texas.

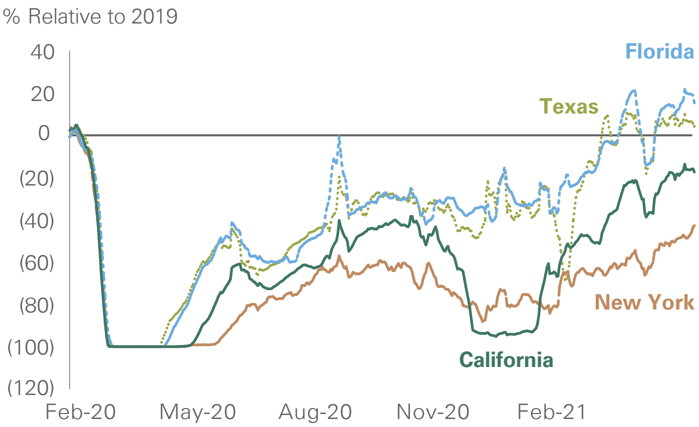
Finally, a key indicator of highly COVID-19-sensitive behavior, movie theater sales, surpassed $60 million in weekly sales, the best week at the box office since the start of the pandemic. While still a long way from 2019's average weekly box office sales of $150–$300 million, it is a notable turnaround for an industry that saw box-office revenue demolished last year.

Exhibit 2: High-Frequency Data Reaches New Pandemic Highs



Source: Apple, Bloomberg, BoxOfficeMojo, MTA, STR, TSA

Exhibit 3: Regional Disparities in U.S. Reopening — Restaurant Bookings



Source: OpenTable

Overall, the increase in COVID-19-sensitive activity is indicative of economic and behavioral normalization in the U.S. Reopening data supports the notion that a strong post-COVID-19 economy is taking hold in the U.S., boosted by a strong consumer and buoyed by fiscal policy. We remain optimistic for these gains to continue as additional vaccinations are administered.

We note that employment data has been slower to bounce back, though we expect the vaccine-driven recovery in the COVID-19-sensitive areas of the economy to also help drive an improving employment backdrop, even if it may take some time. Please see our May 7 Investment Insights, "Labor Market Recovery," for more details on our labor market views.

U.S. Reopening Ahead of Many Developed and Emerging Markets

Even as the COVID-19 situation continues to improve in most developed countries, some are experiencing a lagged return to normalcy. Europe's relatively slower vaccine rollout has resulted in a delayed recovery, roughly a month or two behind the U.S. Furthermore, several emerging markets, including India and Brazil, continue to struggle with still elevated case and death levels. In addition to the general toll this has taken on these countries, high-frequency mobility and economic data have been negatively impacted.

Economic Reopening Ignites Inflationary Pressure

The lifting of pandemic-related restrictions has begun to unleash a surge in consumer demand that some firms are struggling to meet. Soaring new orders are running into pandemic-driven production shortfalls. Bottlenecks are occurring throughout the supply chain from manufacturing to shipping, in turn lengthening supplier delivery times and causing inventories to fall.

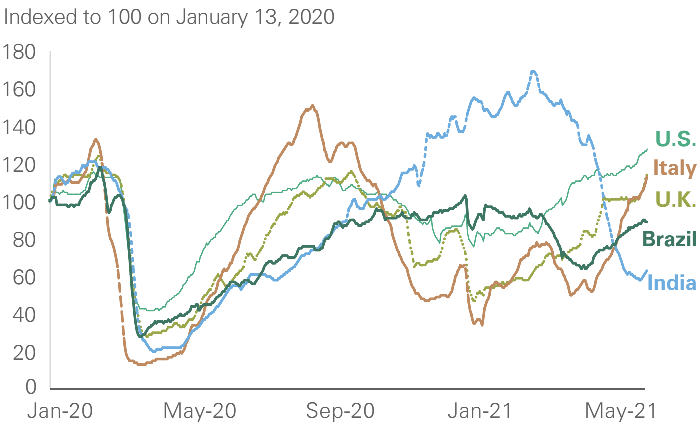
Constraints across the logistics chain from demand outpacing supply have been putting upward pressure on prices, resulting in a burst of inflationary pressure. These dynamics across several reopening sectors are being reflected in recent economic data. For example, the large gain in the April core CPI inflation reading was driven in part by rising airline fares, higher hotel rates, and jumping car rental prices.

The Fed has continued to reiterate that it has expected a surge in spending to lead to temporary price increases. As the consumer savings rate remains extremely elevated relative to history and the service sector continues to reopen, we would not be surprised to see reopening inflationary pressures continue over the next several months.

While it can often be difficult to directly compare regions across the globe, Apple mobility trend reports offer a unique data source that allows for evaluation of the same mobility data in many different countries (Exhibit 4). Apple mobility data reflect requests for directions in Apple Maps, a phone app that is prevalent all over the world. Throughout the pandemic, mobility data has shown a strong inverse correlation with COVID-19 outbreaks and a positive correlation with economic activity.

Spring lockdowns in Europe resulted in sharp contractions in mobility and economic activity as reopening momentum stalled. For example, OpenTable reservations nearly evaporated in the U.K. and Germany amid additional lockdowns. With restrictions lifting more recently, high-frequency data indicates a rebound is taking shape. Given the better-than-expected consumer activity in Europe before the recent round of lockdowns, we are optimistic that pent-up consumer demand, especially into the summer season, will help propel European economies as the COVID-19 risk declines.

Exhibit 4: Mobility Data Indicates U.S. Reopening Ahead of Most of Globe



7-day moving average.

Source: Apple Mobility

Several emerging markets continue to struggle with COVID-19 outbreaks, with the health crisis only exacerbated by new variants that spread at a faster rate. With cases skyrocketing in India, high-frequency mobility data has nosedived recently. A similar phenomenon can be seen in Brazil as well. We are hopeful that India is showing signs of case growth peaking while mobility appears to be bottoming. Though Brazil's case growth is volatile, it is currently below the prior peak, and mobility is recovering quickly. While there is certainly still a way to go, we believe the ongoing vaccine rollout will continue to spread across the globe, minimize the effects of COVID-19, and support a recovering global economy.

Investment Implications and Bessemer Positioning

Monitoring high-frequency data points as the COVID-19 situation changed rapidly over the course of last year has helped inform our investment decisions. Clear evidence of economic normalization has given us greater confirmation of a continued path forward for the recovering U.S. economy and remains supportive of our asset allocation shift to increase equity exposure and decrease traditional fixed income exposure. Positive trends have also supported portfolio moves to increasingly tilt toward cyclical companies that are well positioned to benefit from economic reopening. It is important to note that we have increased exposure to strategies whose underlying companies and investment styles are well positioned to benefit from an acceleration in economic activity while maintaining our focus on quality companies with strong balance sheets and durable business models.

As the positive reopening path of the U.S. is becoming reflected in consensus market expectations, we are increasingly turning our focus to reopening progress in the rest of the world, especially Europe, which is currently reaching an inflection point. We also continue to monitor the potential risks that additional variants and waning vaccine effectiveness may pose in maintaining open economies into the coming fall and winter, though we do not expect them to derail the economic recovery (see Risks of Variants and Waning Vaccine Effectiveness).

Risks of Variants and Waning Vaccine Effectiveness

Questions linger regarding whether reopening progress could be thwarted by new COVID-19 variants or waning vaccine effectiveness. The evidence so far indicates that vaccines approved in the U.S. protect against existing variants. Furthermore, vaccine makers are already working on adapting vaccines to variants. Booster shots are in process to address both new variants and also the potential for waning vaccine effectiveness.

The makers of the three vaccines approved in the U.S., Moderna, Pfizer, and JNJ, are all analyzing their vaccine's effect on different variants across the world. Looking at the efficacy rate on hospitalizations and deaths, the JNJ, Pfizer, and Moderna vaccines all appear to be roughly equally effective against all variants. However, the AstraZeneca vaccine, which is approved in Europe, appears to be less effective against the South African variant. Still, vaccine makers are actively developing or testing booster shots in response to emerging variants. Recently, Israel became the first nation to secure booster shots from Moderna if they are deemed necessary, proven to be successful, and approved by regulators.

Overall, we believe additional variants or waning vaccine effectiveness do not pose a large risk of derailing the reopening progress. Current vaccines, particularly those approved in the U.S., should continue to help curb hospitalizations and deaths regardless of the variant. Additionally, booster shots should also be available in the U.S. and other developed nations by the fall if they are needed.

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