The struggles of workers during the COVID-19 pandemic have brought into sharp focus long-standing social issues that are starting to have repercussions. In late 2020, 94% of the world’s entire workforce lived in countries with workplace closure measures in place due to the pandemic.¹ Essential workers—those on the front lines in health care, foods, staples, law enforcement and other vital services—have largely remained employed. But many face struggles with employee benefits, such as paid sick leave. Among nonessential workers, employees have faced furloughs, difficult transitions to remote-working arrangements or terminations.

Here we explore how these labour issues are playing out across sectors and regions. Not surprisingly, they have the potential to impact companies’ profitability and our investment decisions.

**Unevenly spread across sectors**

No sector of the economy has escaped the impact of the coronavirus, or COVID-19, but its effects have been uneven. Workforce reduction policies in the industrial and consumer discretionary sectors have in aggregate accounted for nearly 60% of all impacted employees worldwide, compared to only

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2% from the consumer staples sector (Display 1). On balance, though, low-income workers are more vulnerable than higher-paid workers.

**Sectors most resistant**

- **CONSUMER STAPLES**, overall, has been the least affected by workforce reduction policies. Many consumer staples companies are deemed essential and required to stay open during the pandemic. As a result, some temporarily increased the sizes of their workforces to meet a surge in demand for groceries and other necessities during the peak lockdowns.

- **TECHNOLOGY COMPANIES** have been able to capitalise on intensifying demand for products and software that facilitate remote working throughout the year. We believe this new working model will continue to be at least partially adopted in a post-COVID-19 world.

- **HEALTH CARE**, also deemed essential in the pandemic, has benefitted from increased demand for pharmaceutical products/services, in particular those best positioned to deliver successful COVID-19 vaccines in 2021.

**Businesses with a mix of vulnerabilities**

Within the consumer staples sector, there are some subsectors that have been more vulnerable to disruption from the virus. There is a gap between essential and nonessential retail, as well as between traditional brick-and-mortar retail and e-commerce.

- **FOOD STAPLES**, deemed ‘essential’, have kept their shops open—and those with an online retail presence have had a competitive advantage. But staying open comes with costs. In all aspects of their business, retailers have had to ensure safety and provide additional access to non-pay benefits and one-off bonuses to front-line employees, who are vulnerable to the virus while commuting to and from their workplaces and interacting with multiple customers on a daily basis.

- **NONESSENTIAL BRICK-AND-MORTAR RETAIL BUSINESSES** declined overall this year. But as with food staples, those with strong online platforms were open for business and maintained a competitive advantage—even if demand for some products may have fallen. For example, online sales were forecasted to reach $189 billion over the holiday season, a 33% year-over-year increase, with scope to increase by an additional $11 billion should we see physical stores shut down due to further COVID-19 restrictions. With fresh announcements of extended stay-at-home orders and employee layoffs, we expect this trend to continue as COVID-19 uncertainty and social distancing rules continue into 2021.

- **E-COMMERCE** has been less dependent on government furlough schemes due to an increase in online purchases of staples, such as groceries, as well as some discretionary goods online. But companies have faced several social controversies related to implementing insufficient COVID-19 protection measures, reflecting poor human capital management. In some cases, this has hit consumer sentiment towards these companies, which in turn may have had a negative effect on their valuations. This reflects the increasing importance that consumers, and therefore investors, place on how companies treat their employees in all environments.

Interestingly, these companies’ human capital risks have increased because they have hired more workers to meet increased demand, which in turn means greater responsibility to provide for their welfare. Companies following best practices have implemented paid leave for those testing positive for the virus and have allowed workers to take unlimited unpaid time off.

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without fear of layoffs.\(^4\) Measures to support workers have also included an increase in safety requirements, such as the provision of personal protective equipment (PPE), facilities cleaning and COVID-19 testing,\(^5\) as well as compensating employees for heightened risks via higher wages.

### Sectors feeling the most pain

Research into the pandemic layoff and hiring policies of 200 global large-cap companies shows that the nonessential labour-intensive industries, such as travel and tourism, have felt the most acute effects of COVID-19-related labour reduction policies. Government lockdowns, travel restrictions and lack of flexible working models have severely curtailed their activity.\(^6\)

- **Airlines and Hotels** have heavily relied on government-funded furlough schemes and other workforce reduction policies throughout the pandemic. Specific terms of the agreements vary by country, but generally require suspensions of dividends and share repurchases, with limits on executive compensation.\(^7\) These schemes were initially only temporary, but have seen some limited scope for being extended. Recovery plans are intended to restore consumer confidence while supporting employees through contactless check-ins, COVID-19 guarantees (such as waived flight cancellation fees, travel vouchers, covered quarantine costs, etc.), vaccine passports, PPE and intensive cleaning protocols. These will be key to recovery for the airline and hotels industries.\(^8\)

- **Tourism and Travel** have suffered the effects of government lockdowns and travel restrictions. Global tourism has declined by 60% and this could reach 80% if recovery measures are further delayed.\(^9\) Travel bans put in place during the peak summer season have been particularly painful for countries like Spain, where tourism directly contributes nearly 12% of its GDP and 13.5% of total employment;
this is significantly higher than the direct contribution from tourism for the U.S. and most other EU countries (Display 2). Coming into focus now is the threat to winter tourism, a key employer in the European Alps, as well as both domestic and international travel over the holiday period.

While the start of widespread vaccination rollouts has given a glimmer of hope that the recovery for these sectors is in sight for 2021, it is still too early for companies to reverse pandemic layoff and hiring policies.

**Policy response has helped**

Crucial to alleviating the social stresses wrought by the pandemic have been governments’ policy responses. Several Asian countries showed that stringent measures, implemented decisively early on—such as lockdowns or robust test and trace regimes—appeared to be highly effective. But most Western governments were much slower to act, allowing the coronavirus to spread aggressively. The consequences have been rising infection rates and additional COVID-19 waves, higher mortality, and decelerating economic activity.

By providing support to companies and employees whose futures were threatened by coronavirus-related lockdowns, central banks and governments have stepped up to the plate. Led by the Federal Reserve, policy makers in the U.S. and across Europe acted swiftly to mitigate labour market disruptions. The persistence of the pandemic and rising unemployment suggest we will see a continuation of global financial and policy interventions into 2021 and beyond. For example, the European Central Bank recently announced its intention to increase and extend its COVID-19-related stimulus

Few safety nets in the U.S. …

At a regional level, the pandemic has highlighted the stark gap between the U.S. and other developed economies. Compared to Europe—where unemployment has been contained by government-funded furlough schemes covering a large percentage of employee wages—\(^1\)—the U.S. has seen an unprecedented spike in unemployment.

Consequently, the U.S. government, through the extended CARES Act, announced a $2 trillion fiscal stimulus package earlier in 2020 to support small businesses and individual taxpayers as well as to expand unemployment insurance.\(^2\) Furthermore, in December, outgoing President Trump signed a $900 billion pandemic relief bill, triggering the flow of aid to individuals and businesses. Despite offering roughly half the support provided in March 2020, the package was very encouraging news for U.S. households.

Still, there are relatively few permanent safety nets in the U.S. compared to Europe: Out of the 35 OECD member countries, 32 have some form of universal health care, yet most Americans rely on their employers for health insurance. According to the Kaiser Family Foundation,\(^3\) the average health insurance policy for families in the U.S. cost $21,000 in 2019, with employers who provide this insurance typically paying 70% of that amount, or on average $14,700. For an employee earning, say, $150,000, to their employer this represents a relatively small proportion of the total cost of employing them. However, for a lower-wage worker earning half the median wage, it represents a much higher proportion of the total costs of employing them—as much as 60%—so their employers are less likely to offer this insurance.

… especially for low-income workers

This asymmetrical impact leads to headwinds for low-income segments of the workforce. According to the U.S. Bureau of Labour Statistics, only 47% of private sector workers in the lowest income quartile have paid sick leave, compared to 90% for the highest quartile.\(^4\) These disparities are particularly apparent in the retail industry, as well as in accommodation and food services, which have a relatively high proportion of low-income employees.

The following table shows that for a U.S. worker earning $30,000 per year, employers only paid an additional $2,652 toward mandated benefits, such as paid sick leave, child care cover, health care insurance and unemployment insurance—less than 40% of the global and G7 averages (Display 3). These benefits are given disproportionately to middle- and higher-income earners, who are typically full-time workers, and unfortunately exclude large pockets of the workforce, such as independent contractors, part-time workers or those who are self-employed.

The lack of these safety nets has arguably been a competitive disadvantage for the U.S. in terms of its ability to manage the spread of the virus and its socioeconomic consequences. Looking forward, with the Biden administration taking office, we expect to see stronger social policy proposals, including a minimum wage increase, paid sick leave and increasing access to affordable health care.\(^5\) These measures would bring relief to a broad spectrum of workers and, with the Democrats effectively winning control of the U.S. Senate in the Georgia runoff election on 6 January, the new Biden administration will have a better chance of implementing some of these measures.

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\(^{10}\) ‘ECB flags more stimulus ahead as financial conditions tighten’, Financial Times, https://www.ft.com/content/9912df16-ca58-4157-9b62-187b368862d0.

\(^{11}\) ‘Focus Europe: COVID-19 dbDIG survey: The impact on households (6) — Furloughed workers’.


\(^{15}\) Morgan Stanley Research, Sustainability, ‘2020 Election: Social Policy Implications — A Look at Labour and Health Care’.
Companies that have anticipated these policy changes, for example by already increasing the minimum wage to the recommended $15 per hour, will be well-positioned to manage the additional investment and capital allocation required. We believe that such companies will in turn be more attractive to investors, both from an ESG and a financial perspective.

**Investing in employees is good business**

Beyond government-supported measures, companies have also announced many different measures to support their workforce, such as employee bonuses, temporary pay increases, reduced retail opening hours or additional breaks during work hours, as well as improvements in paid sick leave policies. However, all indications show that these are temporary offers in extraordinary circumstances.

Companies that decide to extend these measures may prove themselves to be leaders in human capital management.

In 'Different People: Human Capital Management and Diversity', published in 2018, we established a link between human capital management, employee satisfaction and a company’s profitability. Companies that provide additional and permanent improvements in employee protection measures will incur costs, but we believe these costs will be more than offset by the long-term benefits for employees, employers and shareholders.

**A shot in the arm for sustainable investing**

Despite the many ills brought on by the COVID-19 pandemic, sustainable investing seems to be a beneficiary. During the early stages of the pandemic, investors sought "safe havens" in ESG. This trend continued into Q3, with record flows of $476 billion into sustainable funds in November 2020 (+31% versus October). Europe has historically been the dominant market for sustainable assets under management and it continued to attract the lion’s share of global inflows at 83% of the $1.3 trillion total AUM, but the U.S. saw growth of +140% between October and September. We anticipate continued significant growth in U.S. ESG AUM, as the Biden administration is expected to support the introduction of more sustainable financial and climate-related regulation, opening new investment opportunities in renewable and clean energy, for example.

Many ESG funds also outperformed their traditional counterparts during the periods of severe volatility in 2020. In many cases, their overweight positions in technology and healthcare—the two

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**DISPLAY 3**

**Weak support for U.S. workers**

*Mandated social benefits paid by employers in the U.S. are well below the global average*

Influencing social outcomes

The decisions made by companies in response to the pandemic will have long-term financial and reputational effects on companies. Through selective engagement with company managements, we aim to influence policies and practices on human capital management and other social issues. Using the COVID-19 response framework from the PRI as a guide, our priorities have focused on companies that are failing in crisis management or allowing harmful activities to persist or even worsen during the crisis.

Risk Considerations

ESG Strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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21 UN PRI, How responsible investors should respond to the COVID-19 coronavirus crisis
DEFINITIONS
Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

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